NEWS IN BRIEF

Bindley-Goold acquisition completed

INDIANAPOLIS — Bindley Western Industries has concluded its previously announced acquisition of J.E. Goold & Co., the 125-year-old distributor based in Portland, Maine.

William E. Bindley, chairman and ceo, said that Bindley Western acquired all of Goold's outstanding stock in exchange for 91,880 shares of Bindley Western common stock and 1,050 shares of Bindley Western non-voting preferred stock. Goold will be operated as the J.E. Goold division of Bindley Western, and will be headed by president John Campbell.

Goold generates $180 million in annual sales by servicing 1,200 active accounts. Bindley Western has 1991 revenues of $2.4 billion.

Arbor's Applebaum cited for deeds

TROY, Mich. — Arbor Drugs chairman and ceo Eugene Applebaum was given the annual silver honoree award last month from *The Wall Street Transcript*.

The award, based on a poll of industry analysts, money managers and retail experts, honored the ebullient founder and leader of Arbor for the company's rapid growth and consistent earnings performance.

Phar-Mor aids hearing impaired

YOUNGSTOWN, Ohio — Phar-Mor has joined a growing list of companies offering closed captions for the hearing impaired in its television commercials.

Recent Phar-Mor TV spots feature grand opening and double coupon events, and are captioned by CaptionAmerican of Pittsburgh.

"By close-captioning our television commercials, we are able to maximize the effectiveness of television as an advertising vehicle," said John Learish, the chain's broadcast supervisor.

Wal-Mart ventures into Los Angeles

BENTONVILLE, Ark. — Wal-Mart Stores, Inc. is considering two sites that, if negotiations are finalized, will mark the discount retailer's initial entry into the greater Los Angeles urban market.

To date, Wal-Mart's two locations in Los Angeles County are in the fast-growing desert communities of Lancaster and Palmdale around 65 miles north of the city.

The Cerritos site under consideration is a proposed multi-store development in a well-established suburb around 30 miles south of downtown L.A.; the Burbank site, owned by Lockheed Corp., would position Wal-Mart in the Burbank-Glendale market.

Wal-Mart currently has 10 stores in California, all located in inland cities; another store is under construction in Fontana, Calif., in San Bernardino County, according to company sources.

Albertson's drops Super Food bid

BOISE, Idaho — Albertson's has dropped its effort to purchase the Florida operation of Super Food Services, a wholesaler based in Ohio. Super Food is reportedly preparing to charge the 560-store food and combo store chain with breach of contract, according to a *Wall Street Journal* report.

Albertson's has 66 units in Florida, and agreed to purchase the five Jewel Osco stores in the state from American Stores.

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Death of Wal-Mart's founder won't derail growth, say execs

By James Frederick

BENTONVILLE, Ark. — The death of Wal-Mart founder and retail visionary Sam Walton should have little effect on the company's ongoing business or its policies, company officials say.

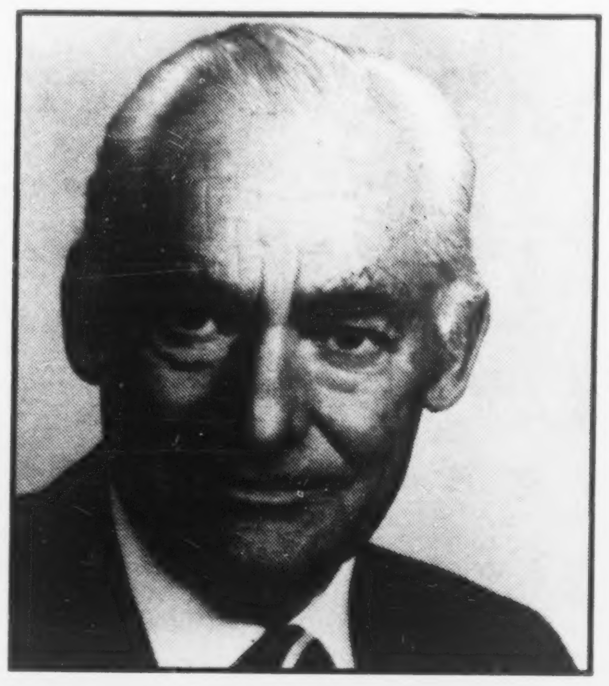
"We foresee no changes in the company's policies or structure," said president and chief executive David Glass in a statement.

Walton, 74, died April 5 in Little Rock, Ark. after a three-year battle with bone cancer. Several years prior to his death, Walton achieved legendary status as the folksy, homespun yet hard-driving head of the nation's biggest and best retail company. He was famous as a tireless corporate cheerleader who visited hundreds of stores a year and sought constant input from his store employees.

"Mr. Sam helped create an extraordinary culture within Wal-Mart which is deeply embedded in each of us," said Randy Laney, vp of finance and treasurer.

It remains to be seen whether Wal-Mart can maintain that unique, highly charged culture in Walton's absence, but investors, at least, seem to be betting that it can. The company's stock price actually rose on Monday following its chairman's death.

Walton started in 1962 with a single, 16,000-square-foot Wal-Mart store in Rogers, Ark., and built a $44 billion retail empire which includes 1,735 Wal-Mart stores and another 212 Sam's Wholesale Club stores. He grew his business with shrewd, groundbreaking policies. Among them: friendly customer service, everyday low prices, up-close and personal attention to detail in the stores, employee input, stock options for employees, a broad merchandise mix and high-tech retail methods to track and distribute product at the lowest possible cost.



Walton

In the process, Walton became one of the richest men in the world. More important, his company altered the retail landscape in small-town America, shaking up traditional balances of trade among general merchandise, drug and even food retailers.

More recently, Wal-Mart has moved increasingly into larger metropolitan areas in search of new markets. It has also strengthened and refined its pharmacy business, adding new management depth and restructuring the drug department in stores to give it greater visibility and importance.

With nearly 1,300 of its stores already equipped with full drug store departments and pharmacies, Wal-Mart's recent moves to boost its drug business have given it enormous impact in some drug store markets. Said one deep-discount executive in Ohio last year, "Wal-Mart is the only real challenge we face. They beat everybody on prices."

In a statement, Wal-Mart called its founder's death "a tremendous loss" and acknowledged that in many minds, "Sam Walton and Wal-Mart are no doubt synonymous." Nevertheless, said a spokesman, "We will motivate ourselves that much more to reach and surpass all of Wal-Mart's goals and make (Walton) proud."

The spokesman added that Wal-Mart's legendary founder and chairman "had the insight to plan for the inevitable."

Indeed, the transition of power mapped out by Walton and others prior to his death moved quickly. On April 6, the founder's oldest son, S. Robson (Rob) Walton, 47, was named to succeed his father as chairman. David Glass, who succeeded Sam Walton as Wal-Mart's top manager in 1988, remains as president and chief executive. Both men are known as energetic, tough negotiators who work well together—and both are steeped in the hard-working, customer-driven atmosphere Sam Walton fostered at Wal-Mart.

Walgreen post sales and earnings records for quarter and half

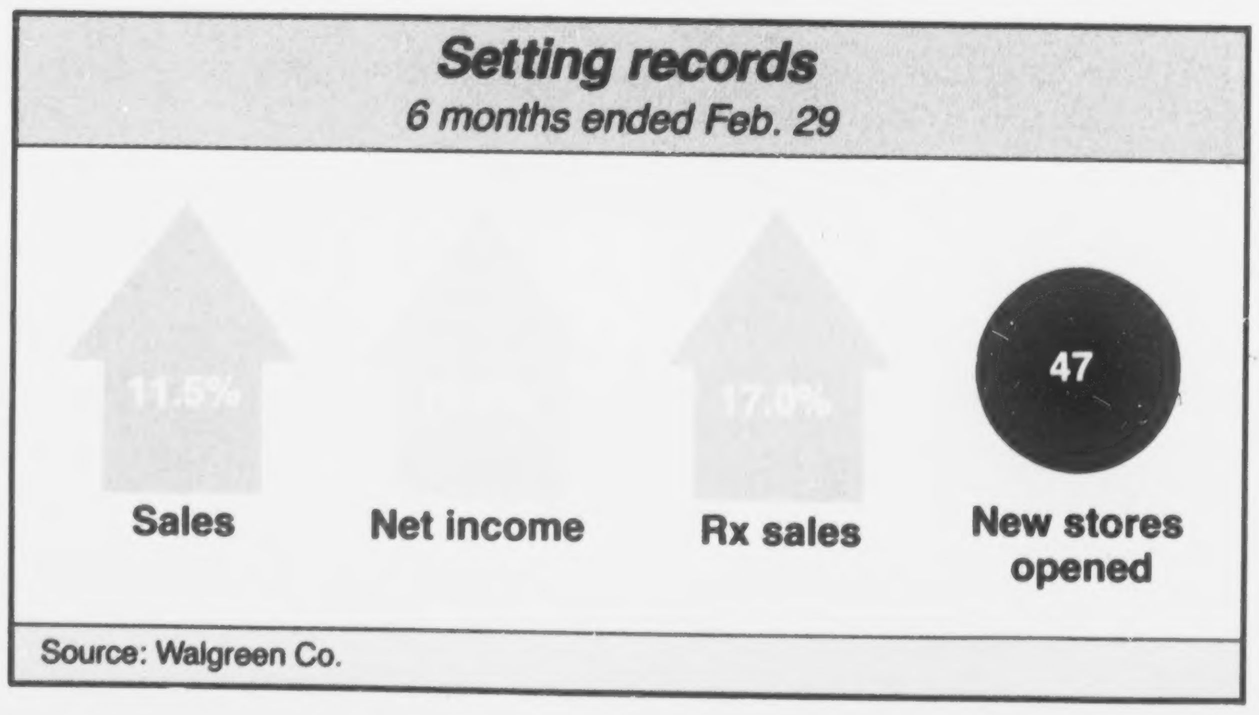
DEERFIELD, Ill. — Its momentum largely undimmed by a sour economy, Walgreen Co. tallied another in a series of record sales and earnings for the quarter and half ended Feb. 29.

Net income jumped 14.3 percent to $77.1 million for the second quarter, with sales up 11.9 percent to $2.0 billion. For the first half, earnings rose 13 percent to $112.9 million on sales of $3.7 billion, up 11.5 percent.

Even factoring out a one-time charge of $4.1 million in the prior-year comparison, related to the closing of the Memphis distribution center, Walgreen still managed a 10.2 percent gain in net earnings for the just-completed first half of fiscal 1992.

Sales momentum slowed somewhat in March, according to a more recent report by the company. March sales rose 5.6 percent, with same-store gains rising 2.2 percent.

Walgreen credited good cost-control measures, including lower headquarters and store salary expenses as a percentage of sales, for the earnings gains. Store occupancy and advertising costs were also lower in the second quarter, although higher insurance expenses partially offset the improvements.



Setting records

6 months ended Feb. 29

Source: Walgreen Co.

Pharmacy continues to carry a growing portion of the freight for Walgreens—as well as for the industry as a whole. Prescription sales jumped another 17.4 percent for the quarter and 17.0 percent for the first half, with first-half same-store pharmacy gains up 14.1 percent. Walgreen plans to base 50 percent of its sales on pharmacy before the end of the decade.

Meanwhile, the chain continues to match its earnings growth with new store construction. "We're on schedule to open 110 new drug stores this year, and 125 next year," said chairman and ceo Charles R. Walgreen III.

The chain opened 47 new stores in the first six months of the new fiscal year, bringing its total to 1,692 drug stores in 29 states and Puerto Rico.

Walton's legacy lives in American retailing

IN THE MARKET
BRUCE BUCKLEY

The Kansas City Airport was the last place I expected to run into Sam Walton. On that day in January 1988, I was among several editors who were headed out to the grand opening of the newest Hypermart U.S.A. in Topeka.

When the chairman of Wal-Mart crossed the airport lobby, I didn't notice him. A fellow editor pointed him out and then introduced us to "Mr. Walton." Unassuming and friendly, he offered us a ride in his modest rental car. I confess that I don't remember what we talked about during the trip, but what sticks in my memory was the later transformation of Sam Walton when he stood up in front of a rapt audience of new and mostly youthful associates at the new Hypermart.

The man who had reminded me of a small-town haberdasher turned into a polished evangelist, almost aglow in his message of promise and success. He transformed the audience as well. At that moment, it wasn't hard to understand why he had made such a mark on American retailing. And, thinking about it again today, why that mark will survive his death.

His legacy—the commitment to value, to customer service, to operations excellence—touches not just discounters, but all retailers. And, in fact, one reason why many competitors have been able to withstand the Wal-Mart onslaught is that they borrowed freely from his book.

This annual report issue and the one that follows in two weeks are really about excellence in chain drug retailing. It's fair to say that at least some of that excellence has been influenced by Walton's ideas as well as the competitive pressures from his company.

* * *

In spite of the sluggish economy, chain drug sales advanced 9 percent to $46.4 billion last year, while total drug store sales reached almost $75 billion. There were soft spots around the country, but the strong operators continued to perform well. They did so by reemphasizing their commitment to customer service and core categories, to appealing new formats and advanced technology.

Pharmacy was the driving engine, with a sales increase that approached 15 percent, despite the slowdown in pharmaceutical price hikes. Growth in the OTC drug category was also robust, with a 9 percent year-to-year gain. Other departments advanced more slowly, but a reviving economy this year should put some more spark into sales.

The deep discount drug store segment, which is counted in the chain drug column, also contributed to the strong sales gain.

* * *

Statistics in this issue are the result of a comprehensive survey of chain drug retailers, but also include information from a wide polling of other sources, including the Commerce Department, industry manufacturers, manufacturer reps and marketing research companies. It should be noted that the 1991 overall chain drug sales figures have been restated slightly higher to conform to Commerce Department data, and therefore so have individual product category figures. Historical data used in the issue has not been adjusted.

* * *

Starting in this issue we'll be presenting Nielsen Highlights, a new column devoted to trade and consumer trends in various HBA product categories. This week's issue focuses on the bath segment; next month Nielsen will take a look at one of the categories in hair care. We believe this new feature is a useful and timely adjunct to our full December coverage of Nielsen drug store trends. Let us know what you think.

Rx'ers want compensation for consultation

WASHINGTON PERSPECTIVE
KEN RANKIN

Just about everybody agrees that pharmacists should take the time to counsel patients about drugs.

An NACDS study released last year concluded that patient counseling will likely emerge as the primary role of community pharmacists in the future.

A separate APhA survey issued just last month found that most pharmacists are already actively involved in patient counseling and would like to devote even more time to it.

FDA commissioner David Kessler is citing the results of still other research as evidence of a sharp increase in patient drug education by community pharmacists during the past few years.

Unfortunately, however, there's less consensus on two particularly prickly points:

- should the government ***require*** pharmacists to engage in patient consultation; and
- should pharmacists be compensated for such activities.

The answers to those questions will likely shape retail pharmacy economics well into the next century.

But if drug store industry leaders hope to influence the debate on these issues they had better move fast.

Starting next January, pharmacists will be required to offer face-to-face counseling to every Medicaid patient submitting a prescription.

In addition, at least 21 states have already adopted new rules of their own requiring pharmacist counseling for all patients, whether or not they are on Medicaid.

As for the question of pharmacist reimbursement for consultations, some people here in Washington say that issue is moot. As they see it, pharmacists are already being compensated for their patient counseling activities—it's included in the dispensing fees they collect on each prescription.

There are, however, compelling arguments to support reimbursement for cognitive services by pharmacists.

$2-per 4-minute consultation

While the cost of compensating pharmacists for time spent counseling patients is high—almost $2 for each average 4 minute consultation—the cost of economically discouraging pharmacists from educating patients about drugs is even higher.

The commissars in charge of third-party drug coverage programs are acutely aware of this fact. Government officials themselves acknowledge that drug noncompliance wastes billions of health care dollars annually, and "contributes to premature deaths, prolonged illnesses and preventable hospitalizations."

Can pharmacists reduce these non-compliance costs and suffering through more extensive patient counseling? You bet.

Can reimbursement for patient consultation be cost-justified? Absolutely.

Will pharmacists be paid for their counseling activities? Only if the drug store industry moves now to make a clear and compelling case for it.

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Satisfying four distinct consumer groups

As the recession deepens, drug chains have developed more advertising campaigns designed to attract consumers through low prices on popular brands—including mass and prestige brands that originally established themselves as exclusive department store items.

Psychographic type	Percentage of female shoppers	Share of: cosmetic dollars	Share of: skin care dollars
Ecologists	31%	33%	38%
Improvisers	10	8	8
Brand savers	36	31	31
Brand spenders	23	28	23

Classifying today's female shopper

Source: Leo J. Shapiro & Associates.

Ad campaigns attract consumers to drug stores were they find low prices on mass and prestige brands of cosmetics and fragrances.

Even in such mature categories as hair care and women's fragrances, that strategy has been successful as women flock to drug stores to buy prestige fragrances and salon specialty shampoos at bargain prices.

Now through an exclusive consumer survey implemented for *Drug Store News* and *Cosmopolitan* magazine by Chicago-based Leo J. Shapiro and Associates, we have been able to develop a pyschodemographic prototype of the four major consumer groups who shop for beauty care products.

This is a significant collaborative effort between two publications—one consumer and one trade—that consistently track purchase patterns within beauty categories.

In our December 1991 issue, we analyzed the Shapiro findings by age types, and reported on the brand preferences of respondents within four age brackets.

In this report, we are analyzing the data in terms of the four psychodemographic classifications that the Shapiro company was able to develop. Along with this analysis comes a better understanding of what each major consumer group values and seeks when choosing a brand or a particular store to shop.

Brand savers

For example, the women who respond so eagerly to ads for designer fragrances and salon specialty items at bargain prices can be classified as "brand savers," according to the factor and cluster analysis that the Shapiro company developed.

A brand saver uses statements like "I tend to stay with the same brand for cosmetics and skin care products" or "A product with a brand name I know implies higher quality" to describe herself.

According to the Shapiro survey, approximately one third of all cosmetic and skin care dollar sales are being generated by brand savers who are looking for bargains on brand name products.

However only 23 percent of all brand savers, who prefer buying brands for less than suggested retail, reported spending the most money for cosmetics in drug stores.

Brand savers were clearly the most flexible group in the survey: 26 percent said they spend the "most money" for cosmetics in department stores; 23 percent said drug stores; and 24 percent said discount department stores.

Their overall lack of loyalty to any one type of establishment seems to reflect their willingness to shop around for bargains. They shop where they find the brands they want at the best possible prices, and they are probably very adept at cherry-picking a store.

Most likely when brand savers see a brand name on ad and want it, they come in, buy it and leave. They are not as susceptible to impulse buying as Shapiro found "improvisers" are.

For brand savers, the Shapiro survey found that a brand is "a means to control the amount of time they spend on beauty care and a way to minimize the risk of unsatisfactory results."

But while these women prefer a brand because they feel they can use it to manage time and control results, they also want low prices, turning them into a natural constituency for retailers who sell and advertise popular brands for less than list price.

Brand savers spend a mean $119 a year on skin care and approximately $87 a year on cosmetics.

It's highly likely that when drug stores advertise items including designer fragrances and premium shampoos and styling aids, it is the brand saver that responds most strongly to these appeals. It's reasonable to assume that the greater the value that drug stores can offer, the higher the chances of attracting this consumer.

Store appeal

The Shapiro survey also discovered that brand saver shoppers respond very strongly to stores that offer them extra values along with a broad selection of quality brand products. For example:

- **100 percent** of all brand savers rated low prices as "very" important to them in deciding where to shop;
- **43 percent** said the presence of testers or the availability of free samples was "very" important;
- **41 percent** said the look of the store or its atmosphere was very important;
- **45 percent** said information on products and new products was "very" important;
- **55 percent** said a large selection of product was "very" important;
- **60 percent** said the ability to find knowledgeable sales help was "very" important;
- and **50 percent** said it was also "very" important to be able to find upscale brands in the stores they shopped.

Brand savers turned out to be the biggest group in the Shapiro study, accounting for 36 percent of the 761 women who were the "chief shoppers" for their households.

The study was based on a nationwide sampling of 1,000

Continued on page 38

Who's spending the most for skin care
(Mean amount spent annually)

Ecologists	$170
Brand spenders	142
Brand savers	119
Improvisers	112

Source: Leo J. Shapiro & Associates.

Who's spending the most for cosmetics
(Mean amount spent annually)

Brand spenders	$125
Ecologists	109
Improvisers	89
Brand savers	87

Source: Leo J. Shapiro & Associates.

Methodology

Leo J. Shapiro and Associates interviewed a national sample of 1,000 households, speaking with the chief food shopper in each household. In 761 households, the chief shopper was a woman, and these women constitute the database for the survey. The study was supplemented with an additional 436 interviews selected from a reader list provided by *Cosmopolitan* magazine.

Satisfying four diverse consumer groups

Continued from page 35

households, supplemented with an additional 436 interviews with readers of *Cosmopolitan* magazine.

The two samples were combined and weighted to provide a sufficient base for the typographic analysis.

However, only the responses of the women who were "chief shoppers" were analyzed to generate estimates of the total population.

Improvisers

The brand saver type of shopper is not the same as a low price shopper whom the Shapiro company described as "improvisers."

In their descriptions of themselves, improvisers say things like "I will not buy anything that is not on sale" or "I buy spur of the moment rather than planning to buy ahead."

For ecologist shoppers, 65 percent claimed the ability to find knowledgeable sales help was "very important."

More than any other pyschodemographic type, improvisers are often motivated to make a purchase by price alone.

Improvisers may want to buy a certain brand but will often choose an alternative instead purely through necessity, and that necessity is driven by a need for low prices.

Improvisers are also not heavy users of cosmetics and skin care products. According to the Shapiro buying survey, only 8 percent of all cosmetic and skin care dollar sales are being generated by women who are primarily concerned about price. But interestingly, out of all four groups, improvisers are the ones who spend the most money for cosmetics in drug stores.

According to the Shapiro survey, one third of all improvisers, 34 percent, reported spending the "most money" for cosmetics in drug stores, while 29 percent said they spend the most in department stores.

Just 18 percent of improvisers said they spend the most for cosmetics in discount department stores, and just 3 percent say they spend the most in food stores.

When improvisers are ready to make a cosmetic purchase, they believe they can find the best value in drug stores.

Also, since only 18 percent of the women in this group report spending the most money for cosmetics in discount department stores, they may also be motivated by the convenience of shopping drug stores.

Drug stores are more accessible than discount department stores and that has value when consumers don't have a car, want to conserve on gas, or don't have time to make a long shopping trip.

In fact, drug stores were the place where all four groups said they spent "the next most money for cosmetics."

Improvisers are also inclined to buy skin care in stores where price and convenience are available options.

Twenty-nine percent of all improvisers say they spend "the most for skin care" products in drug stores while 21 percent spend the most in food stores and 20 percent spend the most in discount department stores.

And, as you'd expect from shoppers who were price conscious, just 13 percent of all improvisers say they spend the most for skin care in department stores.

Store appeal

- **56 percent** of all improviser shoppers rated low prices as "very important" to them in deciding where to shop;
- **19 percent** also said it was very important to shop in stores where they could get a free gift with purchase;
- **41 percent** said the presence of testers or the availability of free samples was "very important;"
- **32 percent** said the look of the store or its "atmosphere" was very important;
- **37 percent** said information on products and new products was "very important;"
- **45 percent** said a large selection of product was "very important;"
- **57 percent** said the ability to find knowledgeable sales help was "very important;"
- and **28 percent** said it was also "very important" to be able to find upscale brands in the stores they shopped.

Improvisers typically spend a mean $112 a year on skin care and approximately $89 a year on cosmetics.

Ecologists

Of all the four consumer groups that the Shapiro survey identified, perhaps the most interesting and challenging is the group that fell into the classification "ecologists."

Unlike brand savers and brand spenders, ecologists tend to remain very flexible with respect to their shopping options. Only 24 percent of the ecologists in the survey strongly agreed with the statement that "a brand name implies higher quality."

That makes them a very different shopper from the brand savers and brand spenders. More than six out of every 10 brand loyal shoppers said they strongly agreed with the same statement.

Brand loyal shoppers, who view their lives as hectic, think of well known brands as a form of insurance against being disappointed by a purchase and as a way to control the time and effort spent on beauty care.

In contrast, ecologists are more wary of products that claim to simplify beauty care. Although they are not as oblivious to price as brand spenders, they feel that simple answers can be more costly, and that other aspects of a product have to come into consideration, such as packaging and the manufacturing process.

As a group, ecologists were unlike their counterparts in two other very important respects. The majority of ecologists, 80 percent, said they "would avoid packaging that endangered the environment."

In comparison, only four out of every 10 brand savers, 44 percent, strongly agreed with this statement; only two out of every 10 brand savers, 26 percent, agreed with it, and less than one of every 10 improvisers, 8 percent, strongly agreed with it.

The gap was just as wide on the issue of animal testing. Seven out of every 10 ecologists—69 percent—described themselves as someone who "won't buy products from a company that does animal testing."

Just 24 percent of brand savers and 19 percent of brand spenders described themselves in those terms, and only 5 percent of improvisers did so. This is an important indication for retailers and manufacturers who are worried about whether consumers will pay a little more to support environmentally responsible packaging and manufacturing.

The ecologist consumers will spend more because, as the Shapiro survey found, these issues are important to them. The ecologist shopper is also not inordinately concerned with price. Only 7 percent described themselves as "never buying anything unless it was on sale."

Ecologists today account for 31 percent of all female shoppers. The majority of female shoppers are brand loyal and quite price conscious.

Beauty care and its appeal to four different types of women

(Percentage purchased in last 12 months)

	Ecologists	Improvisers	Brand savers	Brand spenders
COSMETICS				
Eye shadow/liner	2%	53%	57%	64%
Mascara	63	51	62	72
Foundation	56	43	61	65
Pressed powder	37	33	38	39
Blush	54	48	54	67
Lipstick	66	70	68	82
Nail polish	50	47	48	60
SKIN CARE				
Facial moisturizer	62	58	59	71
Facial astringent	33	35	32	40
Facial cleanser	51	49	51	62
Hand or body lotion	85	76	80	85
Body powder	43	39	43	39
Personal care soap	82	85	80	79

Source: Leo J. Shapiro & Associates.

Store services ranked by importance to customers

(Percentage of women who say this is very/somewhat important)

	Importance to:				
Store benefits	All women	Ecologists	Improvisers	Brand savers	Brand spenders
Free gift with purchase	43%	47%	46%	50%	40%
Testing/sampling	72	79	70	79	78
Free makeovers	39	40	40	45	35
Store atmosphere	78	75	69	77	73
Product information/ New product information	79	86	74	85	79
Large selection	72	80	69	83	72
Knowledgeable sales help	84	86	77	82	86
Upscale brands	77	78	61	84	76
Low prices	89	90	80	100	70
Package design	46	48	36	46	41

Source: Leo J. Shapiro & Associates.

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Satisfying four consumer groups

Continued from page 38

These shoppers will only support environmental packaging issues if all other things are equal, meaning they can still buy the brand they trust at the right price.

Down the line, however, the ecologist group may grow in numbers as more women respond to concerns about the environment, and at that point, manufacturers and retailers must be ready to address their needs.

Interestingly, ecologists tend to be the heaviest users of skin care products, but only average users of cosmetics.

Ecologists typically spend a mean $170 a year on skin care, and approximately $109 a year on cosmetics.

Currently, 28 percent of all ecologists who buy skin care say they spend "the most for these products" in drug stores.

Twenty-one percent say they spend the most in discount department stores and department stores respectively.

Just 19 percent of ecologists report spending the most for skin care in food stores.

Twenty-seven percent of all ecologists say they spend the "most money" for cosmetics in drug stores, while 28 percent say they do the same in department stores. Another 18 percent say they spend the most in discount department stores like Wal-Mart, Kmart and Target while just 8 percent say they spend the most in food stores.

How cosmetic and skin care purchases are shifting*

(Compared to two or three years ago, percentage who are shopping):

	Drug stores more	Department stores more	Drug stores less	Department stores less
Ecologists	29%	33%	49%	51%
Improvisers	30	23	52	55
Brand Savers	37	33	44	50
Brand Spenders	23	32	48	39

*For cosmetic and skin care items.
Source: Leo J. Shapiro & Associates.

Price-conscious shoppers: where they buy cosmetics

	Percentage of cosmetic dollars spent by	Percentage spending the most money for skin care in:			
		Drug stores	Discount department stores	Food stores	Department stores
Ecologists	33%	27%	18%	8%	28%
Improvisers	8	34	18	3	29
Brand savers	31	23	24	7	26
Brand spenders	28	16	9	5	47

Source: Leo J. Shapiro & Associates.

Store preferences by consumer type: brand savers

(Based on last brand purchased by women in past 12 months)

	Drug store	Discount department store	Food store
COSMETICS			
Shadow/eye liner	30%	19%	10%
Mascara	29	24	8
Foundation	18	23	5
Pressed powder	19	23	5
Blush	20	22	5
Lipstick	26	18	3
Nail polish	36	23	4
SKIN CARE			
Facial moisturizer	35	17	9
Facial astringent	27	18	11
Facial cleanser	29	19	15
Hand or body lotion	26	28	26
Body powder	20	27	27
Personal care soap	10	20	64

Source: Leo J. Shapiro & Associates.

GREETING
NATURISTICS

Currently, 28 percent of all ecologists who buy skin care say they spend "the most for these products" in drug stores.

Store appeal

- **64 percent** of all ecologist shoppers rated low prices as "very important" to them in deciding where to shop.
- **47 percent** said the presence of testers or the availability of free samples was "very important;"
- **44 percent** said the look of the store or its atmosphere was very important;
- **50 percent** said information on products and new products was "very important;"
- **53 percent** said a large selection of product was "very important;"
- **65 percent** said the ability to find knowledgeable sales help was "very important;"
- and **44 percent** said it was also "very important" to be able to find upscale brands in the stores they shopped.

Brand spenders

The last group of customers is the hardest for drug stores to attract, at least as far as shopping for cosmetics goes.

Yet, they are also the most attractive in terms of income and consumption trends.

The Shapiro company classified this group as brand spenders and said that like brand savers, they attach great importance to brands as "a tool to manage beauty and skin care." But, unlike brand savers, they do not plan their shopping around price.

The much more affluent brand spender shoppers will often shop department stores to find the brands they trust the most.

Brand spenders report the highest average household income; are likely to be employed as white collar professionals or managers; and are heavy purchasers of cosmetics, particularly upscale department store brands, such as Clinique.

However, only 16 percent of brand spenders reported spending the most money in drug stores for makeup.

Instead, 47 percent of all brand spenders who buy cosmetic products spend "the most for these products" in department stores while 9 percent of brand spenders spend the most for cosmetics in discount department stores. Just 5 percent say they spend the most in food stores.

According to the Shapiro survey, brand spenders account for approximately one-fourth—28 percent—of all cosmetic dollar sales spent and 23 percent of all skin care dollars spent.

The survey also discovered that 36 percent of all brand spenders spend "the most for skin care products" in depart-

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Satisfying four individual consumer groups

Continued from page 40

ment stores, while 18 percent spend the most for skin care in drug stores.

Just 12 percent of brand spender skin care users spend the most for skin care in discount department stores, and only 13 percent spend the most for skin care in food stores.

Brand spenders typically spend a mean $142 a year on skin care, and approximately $125 a year on cosmetics.

Store appeal

The Shapiro survey discovered that brand spenders also prefer to shop stores that offer them extra value.

- None of the brand spender shoppers rated low prices as "very important" to them in deciding where to shop. But **70 percent** said low prices were "somewhat important."
- **38 percent** said the presence of testers or the availability of free samples was "very important;"
- **35 percent** said the look of the store or its "atmosphere" was "very important;"
- **41 percent** said information on products and new products was "very important;"
- **43 percent** said a large selection of product was "very important;"
- **63 percent** said the ability to find knowledgeable sales help was "very important;"
- and **39 percent** said it was also "very important" to be able to find upscale brands in the stores they shopped.

The recession appears to be having an impact on shopping frequencies. Compared to two or three years ago, a large percentage of respondents in all four groups claimed to be shopping both drug and department stores "less often" today than they were two or three years ago.

But, respondents in the two most price conscious groups, brand savers and improvisers, were more likely to report a shift toward shopping more often in drug stores, while respondents in the ecologist and brand spender groups were more likely to report the opposite: a shift toward shopping more often in department stores.

Shift in shopping trends

For example, 33 percent of ecologists said they are shopping department stores "more often" while just 29 percent said they were shopping drug stores more often.

Thirty-two percent of brand spenders said they were shopping department stores more often while just 23 percent said they were shopping drug stores more often.

In contrast, 37 percent of brand savers said they were shopping drug stores more often, while just 33 percent said they were shopping department stores more often.

And, among improvisers, the most price conscious group, 30 percent said they were shopping drug stores more often, while just 23 percent said they were shopping department stores more often.

Store preferences by consumer type: brand spenders

(Based on last brand purchased by women in past 12 months)

	Drug store	Discount department store	Food store
COSMETICS			
Shadow/eye liner	18%	12%	4%
Mascara	27	15	9
Foundation	13	8	5
Pressed powder	20	10	9
Blush	7	10	3
Lipstick	21	10	5
Nail polish	31	21	6
SKIN CARE			
Facial moisturizer	16	12	5
Facial astringent	13	9	3
Facial cleanser	14	11	13
Hand or body lotion	34	21	24
Body powder	33	18	16
Personal care soap	15	13	60

Source: Leo J. Shapiro & Associates.

Store preferences by consumer type: improvisers

(Based on last brand purchased by women in past 12 months)

	Drug store	Discount department store	Food store
COSMETICS			
Shadow/eye liner	35%	17%	9%
Mascara	31	26	11
Foundation	26	15	5
Pressed powder	23	23	6
Lipstick	32	12	5
Blush	24	18	8
Nail polish	30	20	19
SKIN CARE			
Facial moisturizer	19	21	14
Facial astringent	16	13	31
Facial cleanser	20	20	15
Hand or body lotion	29	23	27
Body powder	35	27	14
Personal care soap	9	26	58

Source: Leo J. Shapiro & Associates.

Store preferences by consumer type: ecologists

(Based on last brand purchased by women in past 12 months)

	Drug store	Discount department store	Food store
COSMETICS			
Shadow/eye liner	29%	21%	6%
Mascara	33	19	12
Foundation	27	18	6
Pressed powder	28	25	6
Blush	27	22	5
Lipstick	29	19	8
Nail polish	36	23	10
SKIN CARE			
Facial moisturizer	24	21	13
Facial astringent	22	20	17
Facial cleanser	27	18	17
Hand or body lotion	29	27	23
Body powder	31	22	21
Personal care soap	18	21	51

Source: Leo J. Shapiro & Associates.

Ecologist shoppers spend the most on skin care in drug stores

	Percentage of skin care dollars spent by	Percentage spending the most money for skin care in:			
		Drug stores	Discount department stores	Food stores	Department stores
Ecologists	38%	28%	21%	19%	21%
Improvisers	8	29	20	21	13
Brand savers	31	26	22	14	20
Brand spenders	23	18	12	13	36

Source: Leo J. Shapiro & Associates.

DrSN/Cosmopolitan *survey:* *unearthing the green consumer*

Mindful of women's ecological concerns and their impact on purchasing habits, drug chains have undertaken marketing programs meant to persuade "environmentally sensitive" consumers to shop stores that cater to these concerns.

Who is the environmentally sensitive consumer—the ecologist—and what does she expect from retailers and makers?

Says the nationwide consumer survey implemented for *Drug Store News* and *Cosmopolitan* magazine last year by Chicago-based Leo J. Shapiro & Associates: she tends to be young, with a median age of 39. Half of them—51 percent—attended college and their median household income is $33,400.

When ecologists select statements that describe themselves, their choices are significantly different from other types of consumers. Ecologists are less likely to describe themselves in terms that reflect either a dependency on brands or a susceptibility to low prices.

They are clearly the consumer group who would support green products, packages and departments within mass retail stores.

Low price-conscious shoppers, on the other hand, the type that the Shapiro company classifies as "improvisers," are less likely to avoid packages that endanger the environment or that have been tested on animals.

And "brand spenders," the type who will almost always buy preferred brands whether on sale or not, are also less likely to avoid packages that endanger the environment or products that have been tested on animals.

Further:

- Eighty percent of ecologists agree that the statement "I will avoid packaging that endangers the environment" describes them very well. In contrast, 61 percent of low price conscious shoppers; 31 percent of "brand spenders" say this statement does not describe them at all.
- Sixty-nine percent of all ecologists will not buy products that are tested on animals. In contrast, 55 percent of "brand spenders" and 80 percent of "improvisers" said this statement does not describe them at all.
- Looked at another way, "ecologists" and "brand spenders" are less likely than "improvisers" or "brand savers" to be swayed from their convictions by the lure of money. Fifty-one percent of "ecologists" and 67 percent of "brand spenders" said the statement "won't buy anything unless it's on sale" did not describe them at all. However, 63 percent of "improvisers" and 55 percent of "brand savers" said it did describe them very well or somewhat.

Nearly seven out of every 10 brand-dedicated shoppers said they believed a brand name implies higher quality, while over three quarters felt that they could adopt a simple beauty routine by using a brand name.

In contrast, just 24 percent of all "ecologists" said they agreed that a brand name does imply higher quality and only one third felt using a brand would let them follow a simple beauty routine.

It seems that, along with their sensitivity to environmental issues, goes a perception that a brand name is not a panacea. "Ecologists" seem to feel that one pays a price for simplicity and that price may include a trade-off they are not willing to make, if they feel it jeopardizes their concerns about the environment.

When it comes to beauty care, an "ecologist" is as concerned about potential hazards to her skin and body as she is about hazards to the planet and its inhabitants.

When "ecologists" shop for a makeup and skin product, they want to know the brand they buy is safe: 58 percent said it was "very important" that the makeup they buy has been "clinically tested;" 65 percent said the same about skin care products.

Ecologists are most likely to buy environmentally responsible products

(Percentage who say this describes them very well)

Self descriptions	Ecologists	Brand Improvisers	Brand savers	spenders
I avoid packaging that will endanger the environment	80%	8%	44%	26%
I won't buy products from a company that does animal testing	69	5	24	19
I tend to stay with the same skin care and cosmetic brand	56	46	88	88
I buy spur-of-the-moment without planning ahead	30	34	21	16
I like to follow simple beauty routines	35	15	80	73
A brand name implies higher quality	24	7	68	63
I won't buy anything unless it's on sale	7	14	10	1

Source: Leo J. Shapiro & Associates.

Ecologists favor purity claims in makeup

(Percentage of women who say this is very/somewhat important)

	Makeup products		Skin care products	
	Improvisers	Ecologists	Improvisers	Ecologists
Clinically tested	67%	81%	69%	85%
Doesn't clog pores	78	87	77	87
Hypo-allergenic	70	81	70	84
Fragrance-free	59	67	65	68
Dermatologist-tested	66	82	72	80

Source: Leo J. Shapiro & Associates.

Profile of an ecologist

Characteristics	Percentage who are
Under 35	39%
35-49	30
50 and over	26
Working	33
College	51
Making under $30,000	42
$30,000 to $49,000	35
Over $50,000	23
Mean household size	3
Living in the northeast	25
Midwest	21
South	34
West	19

Source: Leo J. Shapiro & Associates.

1/3 of makeup/skin care buyers are green

When Shapiro & Associates implemented this survey last summer, it discovered that approximately one-third of all cosmetic and skin care dollar sales are generated by women who are "ecologists"—highly sensitive to environmental issues and deeply concerned about animal rights, cruelty-free products and environmentally responsible manufacturing and packaging.

The study was based on a national sample of 1,000 households supplemented with an additional 436 interviews with readers of the magazine, *Cosmopolitan*.

The two samples were combined and weighted to provide a sufficient base for the typographic analysis.

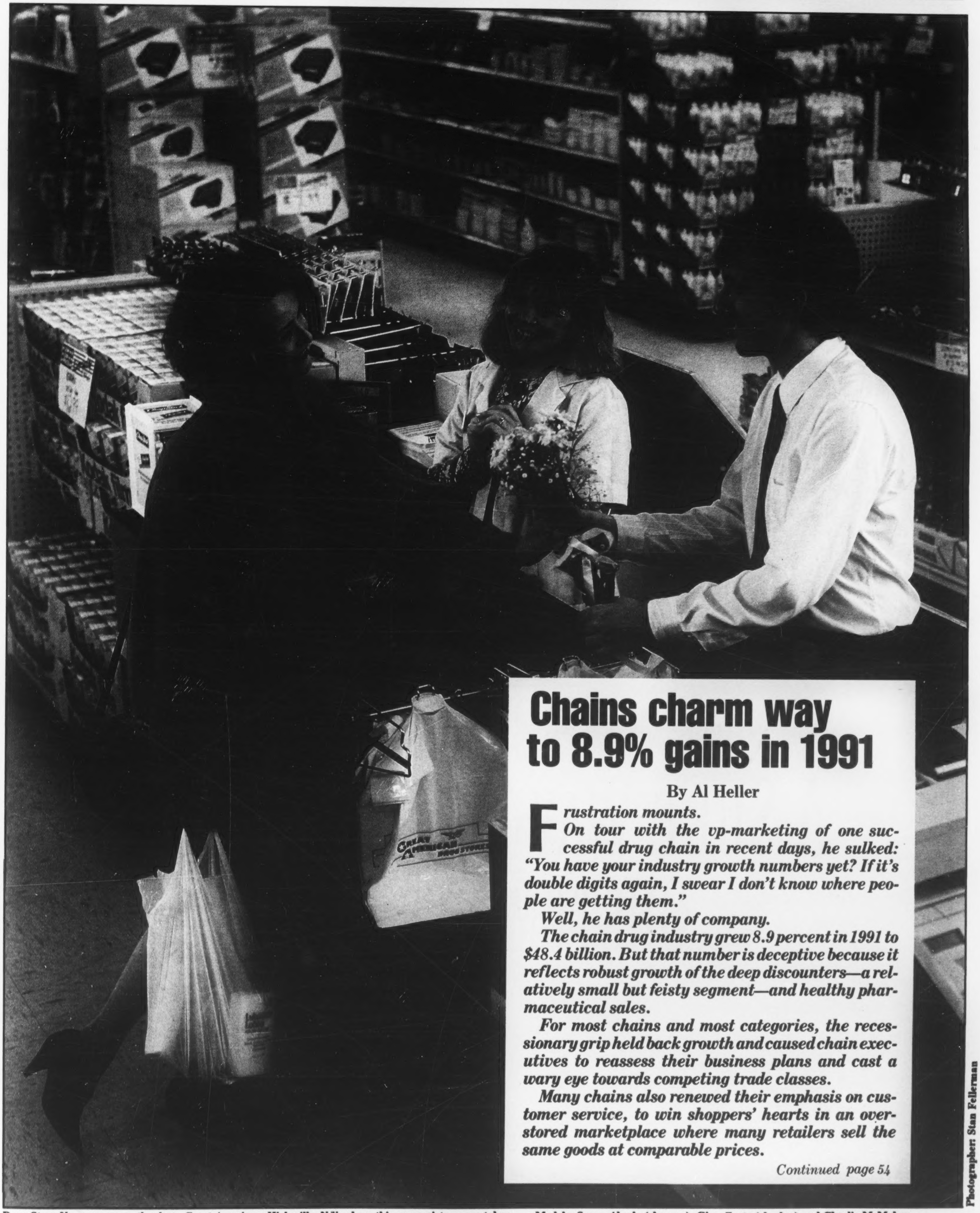
However, only the responses of the 761 women who were the "chief shoppers" within their households were analyzed to provide estimates of the total population.

Last December, *Drug Store News* issued a special report analyzing the brand preferences of these women by age groupings.

ANNUAL REPORT

PART 1

Overview



Photographer: Stan Fellerman

Drug Store News expresses thanks to Great American, Hicksville, N.Y, where this cover picture was taken. Models: Susan Aberle (shopper), Gina Zyats (checker) and Charlie McMahon

Chains charm way to 8.9% gains in 1991

By Al Heller

Frustration mounts.

On tour with the vp-marketing of one successful drug chain in recent days, he sulked: "You have your industry growth numbers yet? If it's double digits again, I swear I don't know where people are getting them."

Well, he has plenty of company.

The chain drug industry grew 8.9 percent in 1991 to $48.4 billion. But that number is deceptive because it reflects robust growth of the deep discounters—a relatively small but feisty segment—and healthy pharmaceutical sales.

For most chains and most categories, the recessionary grip held back growth and caused chain executives to reassess their business plans and cast a wary eye towards competing trade classes.

Many chains also renewed their emphasis on customer service, to win shoppers' hearts in an overstored marketplace where many retailers sell the same goods at comparable prices.

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Execs discuss challenges of drug store industry

**Jerry Kuske,
sr. vp-marketing/
merchandising
PayLess**

PayLess Drug Stores is a proactive company, and we believe in prescriptive thinking. This means that we plan ahead instead of being forced to react to the conditions of the marketplace.

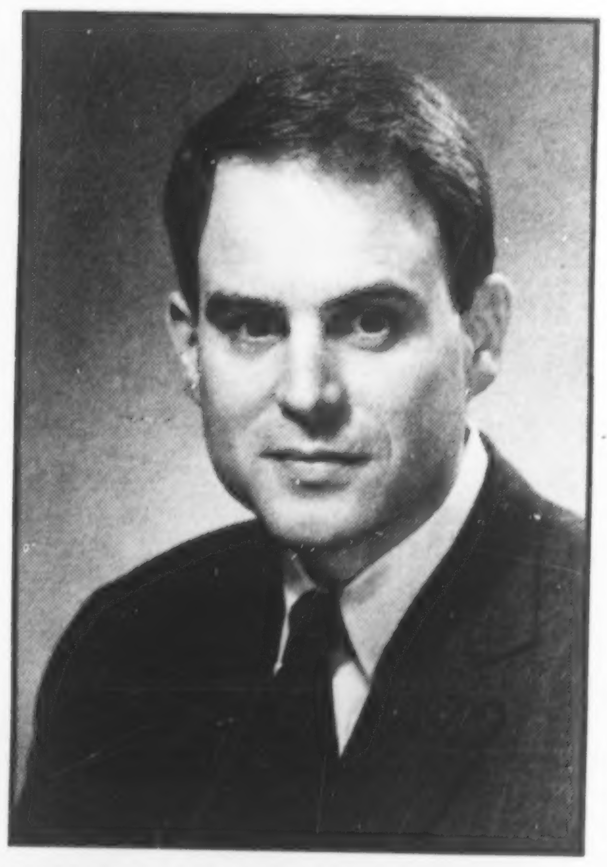
In the past few years, the retail industry has been plagued with layoffs, store closures, takeovers, buyouts and bankruptcies. PayLess Drug Stores has grown remarkably in those same years because of our flexibility in meeting the needs of an ever-changing market. One of the factors contributing to our success is our commitment to evaluate everything we do from the standpoint of what effect it will have at store level. We believe we must make decisions from the customer's perspective.

We realize there is a fine line between being a mega store and a comprehensive drug store. So, we've reduced some of the merchandise we used to carry, and we've moved away from being a "one-stop shop" store. Our goal is to obtain a mix of merchandise that appropriately reflects our image of quality, brand names and reasonable prices. We have drastically reduced the number of imported products in our stores and have increased our focus on national brands.

Technology will give us a dramatic boost in the future. As all of our systems come on line, we will have access to information we have never had before. We have also invested in the technology of television for increased communication between the corporate offices and the stores.

One of the most noticeable changes we've made recently is in our new store design. We now place the pharmacy, one of our core areas, at the front of the store.

We have brought our other core areas to the front of the store as well. This includes cosmetics and HBA and cameras and photofinishing. When a customer walks into a PayLess Drug Store, that customer knows we are a drug store with traditional drug store merchandise. . . .just by looking.



**Philip Perkins,
VP-marketing,
Snyder's**

The greatest challenge for 1992 is the declining gross margins in pharmacy. Pharmacy is the fastest growing portion of our business, both in units and dollars. But the increasing percentage of third-party paid prescriptions is significantly eroding the gross margins.

Since third-party paid prescriptions deliver lower gross margins, our challenge is to become more productive and fill more of those prescriptions. We must convince the pharmacy customer to shop at Snyder because we offer more services than our competitors and we do it better.

We are also experiencing sales declines in certain general merchandise categories and seasonal items that in the past have produced very good gross margins. Today other classes of trade are better at selling housewares and seasonal merchandise.

On the other hand we are enjoying growth in HBC, greeting cards, candy and stationery. We think there is a good opportunity for growth in our cosmetic business. We are becoming the drug store we thought we were 25 years ago; pharmacy is almost half of our business while HBC and traditional lines make up the balance.

The primary reason people shop in our stores is convenience, but we still must maintain the correct price-to-value relationship. Last year the consumer became a more value-conscious shopper. In response to that we added a summer coupon book in June and had excellent results. We also had strong sales from our February 1992 coupon book and are adding another one in November 1992.

We have shifted the mix of merchandise in our print advertising towards more high traffic, commodity goods such as groceries, paper products and household chemicals. It's difficult to create a sense of urgency with a circular. Every Sunday the consumer receives numerous circulars in their paper and knows if they don't need paper towels this week, some retailer will be advertising them next week. We have found that the circulars only deliver good results when timed with a natural selling event, i.e., Valentine's Day, Easter, Mother's Day, or the first of the month.

I think the emergence of the value-driven customer is cyclical like the economy. But customer demand for convenience is not cyclical. Convenience will continue to be the most important factor in our business.

**Markus Ernst,
executive vp,
chief operating
officer,
Arbor Drugs,**

All too often, drug stores think that they are competing against other drug stores. Today, with more cross-shopping by consumers, we face competition from many other segments of retailing. Many drug stores continue to embrace quick-fix solutions, such as one-day sales, mimicking what works for mass merchandisers.

Customers, however, are showing that they prefer the traditional drug store format, which has always been Arbor's competitive edge. Today's challenge is using the latest technology, combined with attention to the needs of customers, to make the shopping experience more convenient. The winning drug store chains, including Arbor, are focused on long-term strategies, emphasizing the day-to-day 'rightness' of their stores.

Today's time-constrained customers—often from two-income families—value a strong pharmacy department, convenience and consistency. Facing a wide array of shopping choices, customers want it all: friendlier service, fast response and merchandise that's in stock and competitively priced. Getting customers in and out of the store quickly is important. For this reason, all 121 Arbor stores are laid out identically.

At Arbor, our operation features a separately managed core pharmacy department, photofinishing clerks on-site, well-staffed stores and multiple checkout counters. We are committed to taking the extra steps necessary to meet and exceed customer expectations. Importantly, all 11 Arbor district managers began their careers in our organization as assistant store managers.

While the future for all retailing promises to be ever challenging, we believe there will be even greater opportunities for 'stores-driven' drug store chains in the '90s.

In 1991, chains charmed way to 8.9% gains

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One sparkling example is the Thrift Drug program unveiled last month which brings back the house call: Pittsburgh consumers within five miles of a Thrift get free home and office delivery.

Snyder's in Minneapolis has for some time been running a home delivery program for prescriptions.

At the same time, Safeway, Kroger and other combination store operators are wheeling in fee-based delivery of grocery and non-food items in hundreds of markets nationwide.

In that sense, at least, it's a kinder, gentler retailing world for consumers.

But as the Gulf War raged, consumers and retailers alike on the homefront waged battles of their own this past year.

Unemployment rose. Consumer confidence sank. And spending froze to the point where, at a recent analyst conference, ceos and cfos concurred that many aren't even looking at same-store sales growth anymore. The game is market share today. Customer counts are steady, but transaction size is flat to down. People are buying less, and chains are often pleased if they're not losing ground to the competition.

A Grey Advertising study in 1991 found that 92 percent of Americans are trying to spend smarter, and 71 percent are spending less. The survey of 725 U.S. households revealed budget cutting in such categories as household cleaning supplies and shampoos, where most people would trade down to lower-price brands, and nearly half buy store brands and generics.

"Clearly, people are shopping for bargains and are more price-conscious than ever before. There is intense pressure on the American family," says Paco Underhill, managing director of Envirosell, a New York-based company that studies shopper behavior in-store.

Consequently, the target shopper is changing. Men are doing more of the family shopping. And since they behave much differently in store aisles, this poses a marketing challenge to drug chains and manufacturers who have historically aimed efforts at middle-aged females.

"Men have the least knowledge of products in the marketplace, and tend to make more purchasing decisions based on what they see and read in the aisles, on the shelves and packages," Underhill adds.

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Breakout of 1991 chain drug sales

Department	1991 total chain sales (add 000)	1991 % increase	% of total sales	% gross margins	Average turns
Prescriptions	$16,464,297	14.8%	34.0%	30-35%	6.5
OTC/proprietaries	7,145,668	8.9	14.8	25-30	5.0
Toiletries	4,842,509	5.4	10.0	15-25	4.5
General merchandise	3,115,354	4.6	6.4	15-30	5.3
Tobacco	2,765,881	4.9	5.7	10-20	15.0
Housewares	2,550,794	0.9	5.3	35-40	2.7
Stationery	2,474,592	8.3	5.1	40-50	4.5
Cosmetics	2,299,363	5.4	4.8	35-45	2.3
Photo/video	1,976,782	2.7	4.1	20-25	8.0
Consumables	1,946,648	7.4	4.0	15-20	5.2
Candy	1,711,460	6.9	3.5	25-30	8.0
Misc./promotional	1,074,871	4.6	2.2	15-20	NA

Source: *Drug Store News* 1992 survey of drug chains.

Executive comments

Drug store execs discuss challenges of the industry

James Devine, president, CDMA

For our drug chains, 1991 was a year of challenge, increased competition, belt-tightening and cost-justifying all expenses and activities. Conservative purchasing produced excellent sell-throughs; however, chains may have been able to sell more seasonal merchandise had they stocked more of these items.

It was also a year of evaluation, on everything from procedures and staff to advertising and promotional programs to pricing policies and merchandising strategies.

It was also a year of very few new items, although there were lots of closeouts to choose from. We also saw the beginning of aisles, sections or endcaps devoted to 99 cent or $1 items.

TV items, the diet category (especially Ultra Slim Fast) nutritional and natural items, bottled water, teeth whiteners, trading cards, photofinishing and one-hour photo departments all did well. Snack departments and party goods were also strong, perhaps because people are staying home more.

I think that in 1992 we'll see more of the same, but with a different air of optimism. Most chains feel the recession is over and there are signs of the economy coming back in some areas stronger than others.

In 1992, there will be more networking, partnering, and building of alliances than ever before. This past year has taught many of us that the '90s will be different than the '80s. If they don't make changes and don't take care of the customers, the customer will shop the guy next door or across the street.

David Morocco, vp-marketing, Brooks Drug

The most interesting issue is we are going to reduce the distribution cost. In the chain drug industry, we have to become even better at managing the cost of bringing merchandise into our distribution channel and getting it into the stores.

Some of the areas we have to look at are pallet configurations: how many layers we are getting on a pallet, how many cases fit on a pallet, and how manufacturers can help us reduce the number of picks in the distribution center by shipping in seasonal prepacks and doing some prepicking in their distribution centers for us.

As vendors consolidate divisions, we have to also make sure that we are buying at the best price bracket if they offer bracket pricing.

We also have to look at where we are in terms of EDI. Drug chains have been late in getting involved in EDI and we have to get up to speed on using the new technology to not only order better but to better control the flow of merchandise, so that we aren't using our distribution centers as warehouses, but as handling facilities.

Chains charmed the way to 8.9% gains in 1991

10-year sales trends

(in millions)

Departments	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
Prescriptions	$16,464	$13,949	$12,189	$10,717	$9,426	$8,475	$7,669	$6,733	$5,927	$5,105
OTC/proprietaries	7,146	6,381	5,948	5,362	4,882	4,468	4,087	3,595	3,201	2,879
Toiletries	4,843	4,468	4,134	3,770	3,436	3,230	3,047	2,742	2,457	2,271
General merchandise	3,115	2,895	2,801	2,579	2,023	1,902	2,117	2,009	1,859	1,744
Tobacco	2,766	2,564	2,476	2,364	2,279	2,205	2,127	1,979	1,806	1,702
Housewares	2,551	2,458	2,411	2,245	2,083	2,003	1,676	1,606	1,497	1,389
Stationery	2,475	2,223	2,057	1,810	1,638	1,488	1,352	1,199	1,069	987
Cosmetics	2,299	2,122	1,998	1,834	1,715	1,605	1,481	1,352	1,205	1,107
Photo/video	1,977	1,873	1,746	1,547	1,425	1,294	1,235	1,114	1,001	891
Consumables	1,947	1,762	1,661	1,526	1,433	1,335	1,280	1,209	1,123	1,060
Candy	1,711	1,556	1,469	1,315	1,186	1,067	973	892	793	753
Misc./promotional	1,075	999	968	882	817	745	724	657	589	579

Source: 1992 Drug Store News chain drug survey

Merchants' priority is to develop open fixtures that add to impulse, look good and are highly visible to limit shrink. At PayLess, fragrances are centered within the serviced department.

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"Men are also much more vulnerable to impulse purchases," he noted. "There's hardly a wife in America who hasn't wailed about her husband, 'I sent him to the store with a list, and instead of spending $3, he spent $40.' "

Therefore, drug store chains that effectively target men can leverage that into market share gains. That is the good news.

Still, men as shoppers are far outnumbered by women. And, men as a potent market force have a long way to go. In shampoo, for example, most men still use whatever their wives or girlfriends use.

Moreover, the next generation of young consumers is shopping feverishly at Kmart, Wal-Mart and Target. And women are finding the one-stop-shopping convenience of combination stores an irresistible lure in many HBA categories.

If drug chains are to remain the preferred outlet for health care, they must stress consultation and expert service. And, if drug chains are to be the preferred retail channel for senior citizens, their retail layouts and signage must be more accommodating.

Some examples: comfortable seats so elderly men can sit while their wives shop; easier-to-read labels and price tags; shelf signs that tell what products are and how to use them, such as distinguishing between five types of cough medicines and, say, eye wash versus eye bath. This information delivery can help drug stores preserve their niche by adding confidence and expertise to the sale of product.

Indeed, D.P. Hamacher, a Milwaukee-based retail consulting firm, says a new study shows that sales of signed items increased 50 percent over the prior month when no shelf signs attracted customers to these products. The range of volume gains on six products sold at everyday prices was 26 percent to 70 percent.

And, there is a carryover benefit: two months later, well after signs were removed, sales of these same products were up 6 percent.

This information edge will be crucial in 1992, which looks to be another lackluster year for retail sales. A new Management Horizons study forecasts 2 percent retail sales gains after inflation. That will be led by 3 percent to 5 percent gains in Texas and northwestern and midwestern regions, but will be trailed badly by New England, Southern California and the mid-Atlantic region.

Looking at some core drug store businesses, pharmacy rose 14.8 percent at chains in 1991. But while pharmacy price inflation helped boost the figure in the past, that pace slowed in '91 and is abating in '92. And with combination stores accounting for over 5,000 pharmacies and Wal-Mart and Kmart operating well over 2,000 between them, drug stores must drive harder to keep the health care franchise that has been their marketplace distinction for so long.

OTCs advanced 8.9 percent, and cosmetics and toiletries each rose 5.4 percent—but drug chains are being pressed hard here by other trade classes.

The stationery business grew 8.3 percent at drug chains, but the serious home office business has largely migrated to such specialty stores as Staples, Office Depot and Workplace.

The photofinishing category—which is such a potent image and traffic builder—is being vied for aggressively by minilabs and microlabs set up in freestanding shops, combos and discounters.

Eckerd is a standout in this business, with its 320 Express Photo in-store minilabs that have helped build the chain's photography business and overall store performance.

For all their challenges in '91 and '92, drug chains had plenty of bright spots too: consumables growth; skin care and bath sets; single-use cameras; the positive impact of designer fragrances; and much more. Detailed category reports in this section relate successful strategies and important trends that will change the face of the business through the '90s.

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The Annual Report Part I section was a staff effort. **Liz Parks** covered cosmetics and fragrances, toiletries and ethnic. **Barbara White** covered stationery, greeting cards and candy. **Allene Symons** covered photo, video, audio and consumables. **James Frederick** covered tobacco and housewares. **Mike Troy** covered general merchandise. **Al Heller** wrote the overview.

Lip, eye cosmetics color '91 sales jump

Drug store chains reported a 5.4 percent gain in cosmetic sales to $2.3 billion in 1991.

Driving this growth were lipsticks, mascaras, face makeups, eye and lip pencils, specialty products like eye creams and wrinkle smoothers, and accessories like cosmetic organizers and cosmetic brushes.

Kathy Johannes, cosmetics and fragrances buyer for Kerr Drug in Raleigh, N.C., reports that in her stores, 1992 is shaping up as the "year of the lips."

"We've been running Revlon lipsticks at $3.99 everyday, and sales have been fantastic. We've selling so much that even at that price, our gross profits only went down 1 percent."

She says that at press time, lipsticks were outselling every other segment in the cosmetic department. "We've gotten much more competitive. We have the lowest prices in town, and we're doing lots of signage."

Revlon's Velvet Touch lipstick and L'Oréal's Colour Supreme are two hot brands in the premium segment of lip color.

Cover Girl's Lip Advance and Maybelline's three newly repackaged lines—Moisture Whip, Long Wearing and Revitalizing Color—are also doing very well, buyers say.

In lip, matte shades are selling best, and women seem to be responding to any brand that delivers long wear and full-bodied coverage.

Among the newest launches, buyers say the picture is looking very good for Revlon's Outrageous Lipcolor, also positioned as a long-wearing lipstick, and Cover Girl's new Remarkable Lipcolor, with aloe and vitamin E.

This year, Coty also has a new line just getting into distribution, a refillable lipstick called Refinements. It's the first refillable in the mass market in many years, and buyers are waiting to see how consumers will respond. One buyer says that at the suggested retail of $6.50, which includes a lipstick and a solid brass case, Refinements is a competitive value.

Refills cost $2.95 at SRP so some buyers think the line will do particularly well with the younger consumers who buy a lot of Maybelline, Cover Girl and price brands like Wet 'n Wild.

In Louisiana, Donna McManus, who buys cosmetics for K&B, reports that she, too, is seeing strong growth in lipsticks.

In K&B stores, Revlon's lipsticks from Velvet Touch through Super Lustrous are doing very well, as is L'Oréal's Colour Supreme and Cover Girl's Lip Advance. Maybelline's lip sales are picking up nicely, and CCA's Mood Magic and the Bonne Bell Lip Smackers are popular.

Kerr's Kathy Johannes says that 1992 is shaping up as the "year of the lips," in her stores.

Service is the linchpin of cosmetics-fragrances growth at drug chains. It induces tradeup sales, and builds customer loyalty and confidence.

1991 cosmetic department highlights in chain drug stores

Chain drug cosmetic sales	$2,299,363
1991 percentage increase	5.4%
Percentage of total chain drug sales	4.8%
Typical gross margins	35%-45%
1991 industry profit yield from cosmetics	$800,000,000-$1,035,000,000
Average annual department turns	2.3

Source: 1992 *Drug Store News* industry survey

1991 cosmetic/fragrances department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Total Fragrances	$ 675,031	6.4%	29.4%
Women's	495,600	7.8	21.6
Men's	179,431	2.7	7.8
Total Cosmetics	$1,624,331	6.1	70.6
Face	455,997	6.8	19.8
Eye	379,800	4.4	16.5
Nail	350,844	5.8	15.3
Lip	326,044	8.2	14.2
Accessories	47,022	4.0	2.0
Franchised skin care	48,248	5.2	2.1
Franchised bath care	16,375	8.6	0.7
TOTAL DEPARTMENT	$2,299,363		

Source: 1992 *Drug Store News* industry survey.

Eye color category

Except for mascaras, the eye color category has been soft for most chain drug stores. In shadows, most buyers say that the single pans do well.

McManus is hoping that the new eye shadow formulas launching now, from Revlon and Clarion, will give that category a needed shot in the arm.

Speaking about Clarion's new Captive Color Eye Shadow collection (that comes packaged with a base), she notes that since "a lot of women who wear eye shadow don't bother to use a base, I'm hoping this collection will make consumers more conscious of a base. If they use [one], they [will] get much better wear. If they realize that, we may see a surge of shadow sales just as we did in lip when the longer-wearing formulas were introduced."

Other launches that could generate new activity in the category are Max Factor's new Color Sweep Quick Stroke Eye Color, Revlon's new Custom Eyes Shadow, both of which, like Clarion's Captive Color Eyeshadow, are just getting into distribution.

Factor has used a new technology to develop a brush for Quick Stroke that buyers say is able to pick up just the right amount of color for a given application.

Revlon's new reformulated Custom Eyes has a built-in shadow base for longer wear, while Clarion's Captive Color Eyeshadow has a base included in the same compact with two shades of eye shadow.

Face cosmetics

In face, buyers say women are primarily buying foundations that give them a natural or silky look. At the high end, Hydra Perfecte from L'Oréal has performed well. The Cover Girl face makeups are all doing well and buyers are reporting an upsurge in Rev-

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Lip, eye cosmetics color sales jump

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lon face cosmetic sales as well as in sales of the Maybelline face makeups.

Max Factor has a new line shipping that some buyers think will "revolutionize the art of foundation." It's called Color and Light, and it's a liquid oil-free water-based foundation that provides a natural look and is for all skin types.

The buyer for one major Northeast chain says it is formulated with "transparent pigments" that allow the texture of a woman's skin to show through and that makes it seem like the skin is adjusting to different lights.

She described it this way: "You know how you sometimes put makeup on in your bathroom and it looks great and you get to work and under that light, it looks garish. Well, the pigments in this somehow work with light so it looks good under all conditions. I think it could be one of the hottest new items of this year."

Fragrances

Fragrance is another department in cosmetics that has done well this year. Some chains say sales are up 8 percent to 10 percent versus last year, but much of the growth is coming from premium priced department store brands that are starting to migrate into the drug store mass market category.

"More and more the business for designer fragrances is coming to drug stores," says Gene Applebaum, chairman, president and ceo of Arbor Drug Stores.

"This year everybody had designer fragrances," said Steve Lubin, who buys cosmetics and fragrances for Walgreens. "At Christmas, it made it harder for us because there was so much more competition, but it was still the strongest category we had. Today, it's one of the few categories in cosmetics where you can get good dollar volume increases."

Designer brands

Almost every department store brand that buyers can get is doing well from Beautiful through Eternity.

Cosmetics
OTO
BATTERIES

Walgreens has brightened cosmetics with extra lighting that illuminates the service bullpen.

Kerr's Johannes says designers were one of her best items this year.

Eternity For Men is hard to get but she says when she can get it, "I buy as much as possible and it's in and out."

In the mass market fragrance segment, however, only a few lines are doing well. Sales of many mass brands are sluggish.

The strongest performers are still Cover Girl's Navy and Coty's Ex Cla Ma Tion, Lady Stetson, Emeraude and Sand & Sable.

At Kerr Drug, three mass brands, Sand & Sable, Jovan Musk and White Musk were strong this year. Johannes described Sand & Sable as "one of the best sellers in the South; Jovan Musk, I couldn't keep in stock, and White Musk sold through Christmas in October."

This year, Johannes saw movement in men's fragrances picking up again. Drakkar Noir, Eternity For Men, Stetson, and Jovan Musk For Men did the best.

On the West Coast, Shari Ralston, cosmetics and fragrances buyer for PayLess Drug Stores, reports that in the designer category, although Obsession and Eternity are hard to get, when PayLess has them, they sell

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Hottest new face makeups

Rank	Product	Months in distribution
1.	L'Oréal Hydra Perfecte Makeup SPF-10	9
2.	Maybelline Lasting Finish Matte Liquid Makeup	10
3.	Clarion Perfect Complexion Lightweight Makeup	9
4.	Revlon Sheer Face Color Blushing Powder	11
5.	Revlon New Complexion Concealer	11
6.	Cover Girl Replenishing Loose Powder	9
7.	Flame Glow Natural Glow Blush	8
8.	Maybelline Shine Free Anti-Acne Concealer	10
9.	Flame Glow Natural Glow Press Powder	8
10.	Almay Just Enough Makeup	9
11.	Flame Glow Natural Glow Loose Powder	8
12.	Flame Glow Natural Glow Concealer	7
13.	Flame Glow Double Pan Blush	8
14.	Cabot Perfect Color Retouch Concealer	12
15.	Almay All Day Press Powder	7
16.	Flame Glow Fix It Stick	10

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

> *'More and more the business for designer fragrances is coming to drug stores.'*
>
> **Applebaum, Arbor**

Hottest new lipsticks

Rank	Product	Months in distribution
1.	L'Oréal Cream Rich #302	7
2.	Maybelline Revitalizing #375RL-01	10
3.	L'Oréal L'Artiste Enduring Lip PRL #J028	7
4.	Flame Glow Natural Glow Lipstick	8
5.	Max Factor New Definition Frost	11
6.	Flame Glow Natural Glow Roll-On Gloss	9
7.	Revlon Color Look Lip Base	11
8.	Flame Glow Natural Glow Gloss Stick	9
9.	Revlon Super Lustrous Sheer Berry Bare	11
10.	Revlon Super Lustrous Sheer Nude	11
11.	Revlon Super Lustrous Sheer Clearly Coral	11
12.	Revlon Super Lustrous Sheer Raspberry Revealed	11
13.	Revlon Super Lustrous Sheer Red Translucent	11
14.	Prestige Waterproof Lipstick	11
15.	Revlon Super Lustrous Sheer Barely Pink	11

Note: Mood Magic Perfect Shine Lip Gloss ranked in at number 20 with 11 months distribution, making it the highest ranking small manufacturer on the list.

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

Lip, eye cosmetics color sales jump

Drug chains are luring shoppers tired of department store prices. Drug Emporium is benefiting from this class to mass migration.

Hottest new mascaras

Rank	Product	Months in distribution
1.	Revlon Long & Lustrous Mascara	11
2.	Maybelline Perfectly Natural Mascara	10
3.	Max Factor Splish Splash Mascara	11
4.	Revlon Spring Waterproof Mascara	10
5.	Flame Glow Waterproof Mascara	7
6.	Flame Glow Natural Glow Long Mascara	8
7.	Flame Glow Natural Glow Thick Mascara	8
8.	Maxi Curly Mascara	7
9.	Revlon Slim Mascara	10

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

Hottest new eye shadow makeups

Rank	Product	Months in distribution
1.	Flame Glow Natural Glow 4-Pan Shadow	7
2.	Flame Glow Natural Glow 3-Pan shadow	8
3.	Max Factor Shadow Blocks	11

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

Continued from page 60

completely through.

The trial sizes of Cover Girl's latest fragrance, Incognito, which went on counter last February, have been blowing out the doors, most buyers say, and right now Incognito looks like it will be the strongest mass launch of the year.

Buyers say Coty also plans to launch a new fragrance later this year, but details are sketchy. Coty's last launch, the 1991 teen fragrance, Tribe, is doing OK, but is not the spectacular launch that Ex Cla Ma Tion was several years ago.

Revlon has increased support for its best-selling mass fragrances, and some buyers say they're seeing good results. Charlie's sales are stronger, and buyers say Revlon's Unforgettable needed more marketing support from Revlon but is finally starting to come into its own.

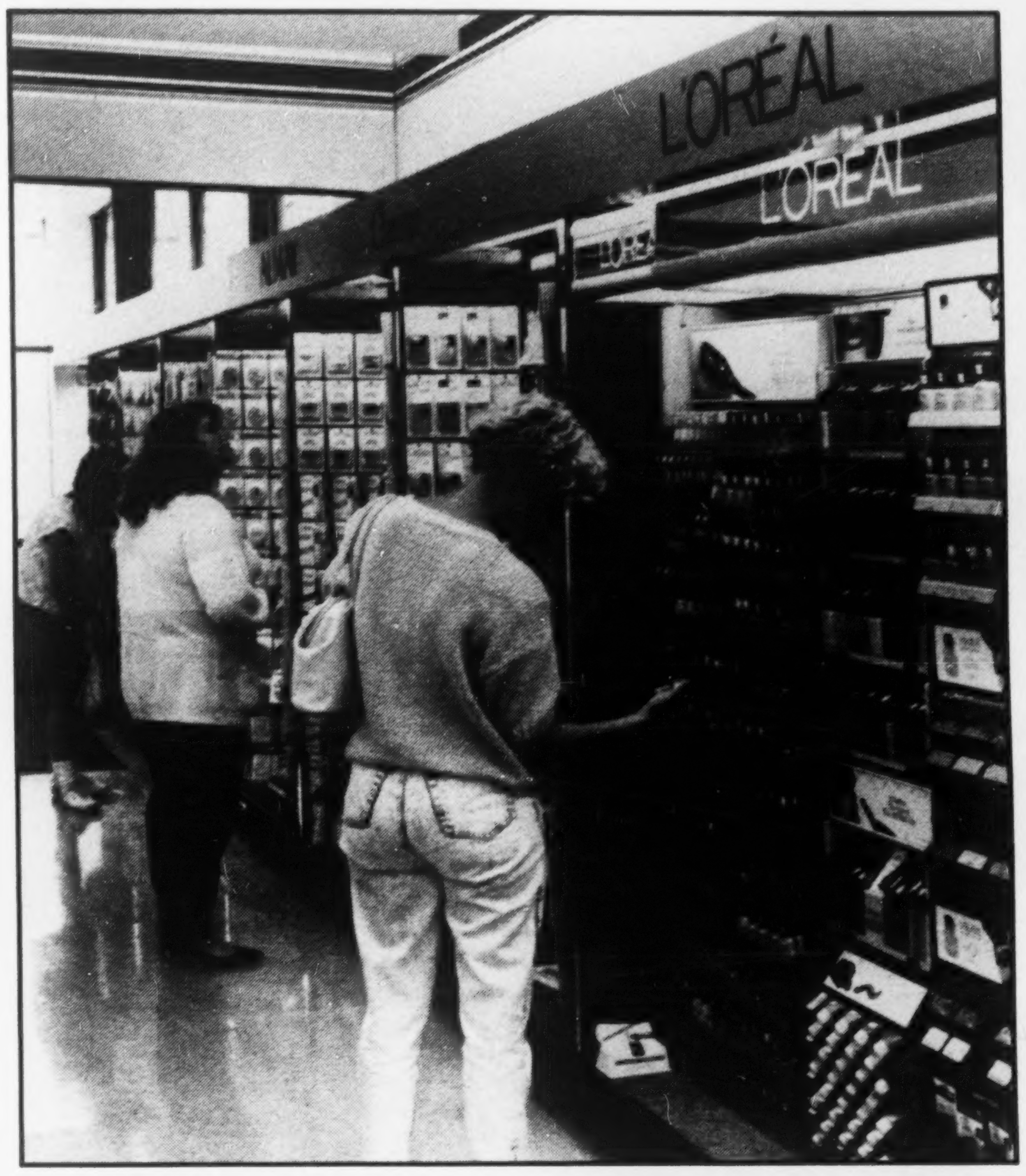
Among the lesser-known brands, the Lady in Red fragrance is gaining distribution, after turning in a decent Christmas sellthrough in many markets, and some chains are considering testing Priscilla Presley's Moments, distributed by Colonia. Moments has done well at JCPenney.

Bath and body, a category merchandised both with fragrances and with skin care, is continuing to do well off a small base.

Del's Naturistics and La Loren's Sarah Michaels are doing very well, particularly when merchandised in an endcap presentation as family lines.

Now Maybelline has acquired Yardley, and buyers are waiting to see what kind of support may be coming that will drive growth in that line. Yardley has been a steady seller, but with more aggressive marketing support behind it, some buyers think it could really take off, and become "another line like Neutrogena," as one source put it.

Later this year, look for Tsumura, Int. to launch another new teen fragrance in time for Back-to-School. Tsumura has acquired the license for the popular TV hit show Beverly Hills 90210. It plans to launch a Beverly Hills 90210 fragrance line this fall with support in key teen magazines and follow it up with a promotional cosmetic Beverly Hills line in early 1993.



Lipstick sales are hot and are setting the pace in color cosmetics volume. High-impulse wall fixtures at Perry get a lot of attention.

Hottest new cosmetic accessories

Rank	Product	Months in distribution
1.	Swisspers Cotton Rounds 5 count	7
2.	Swisspers Cotton Rounds Box 80 count	8
3.	Up Stage Blusher Brush	6
4.	Up Stage Powder Brush	7
5.	Up Stage Pop-Up Matal Brush	7
6.	Up Stage Foam Applicators	7
7.	Up Stage Super Brush	7
8.	Up Stage Eye Shadow Applicators 30 count	7
9.	Up Stage Large Super Brush	6
10.	Up Stage Eyebrow Comb	7
11.	Up Stage Eye Pencil Sharpener	7
12.	Up Stage Soft Shading Brush	6
13.	Victoria Vogue White Foam Puffs #212	6

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

Hottest new cuticle removers/treatments

Rank	Product	Months in distribution
1.	Sally Hansen Vitamin E Nail Cuticle Oil .45 oz.	8
2.	Sally Hansen No More Dry Cuticle .45 oz.	8
3.	Cover Girl Salon Solution Pumice Cuticle Cream	10
4.	L'Oréal Cuticle Rescue	8
5.	L'Oréal Cuticle Tamer	8
6.	Supernail Cuticle Cream	8
7.	Jonel Cream Away Cuticle Remover .5 oz.	10
8.	Nail Magic Cuticle Cream .5 oz.	7

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

Hottest new nail polishes

Rank	Product	Months in distribution
1.	L'Oréal Nail Gloss Magnifier	7
2.	Max Factor Rosewater Nail Blush	8

Based on average monthly chain drug dollar volume for products introduced into the drug and food trade classes between Feb. and July 1991.

Source: Towne-Oller.

What's new in face makeups

Brand	Manufacturer	Launch date quarter	Comments
Physicians Formula	Pierre Fabre	2nd '92	Major relaunch. New formulas. New packaging. More advertising in print. Expanding distribution.
Max Factor Color & Light Makeup	Max Factor	1st '92	Innovative new line. Oil-free, Water-based foundation creates a sheer, flawless look. The breakthrough formula contains transparent pigments, spherical powders, and hollow microspheres that allow the skin's own texture to shine through. 10 shades. $7.95
Almay Cream Makeup Moisture Tint Sports Formula Makeup	Revlon	1st '92	New formulas. Maximum coverage foundation. 4 shades $7.50 Sheer, natural waterproof coverage 3 tones. $4.50.
Luxury Finish Loose Powder			Ultra-light, silky to correct imperfections. 5 shades. $5.75
Matte Finish Complexion Balancing Pressed Powder			For normal to dry skin. 6 shades. $5.25
Oil Blotting Pressed Powder			Lightweight. Soaks up oil. 6 shades. $5.25
Clarion Sheer Illusion CremePowder Blush	Noxell	1st '92	New line. Long wearing. Combines long wear benefits of a cream with soft, blended look of a powder. Part of major 1992 relaunch. 8 shades. $7.95
Clarion Silk Perfection Pressed Powder	Noxell	1st '92	New line. Innovative. Silky feel, light coverage plus longer wear. Part of major 1992 relaunch. 3 shades. $7.95
Clarion Makeup	Noxell	1st '92	Major relaunch. New products. New packaging. New image as premium priced line for sensitive skin. One of Top 5 brands in ad spending.
Springwater Blush	Revlon	1st '92	Line extension First blush line made with 100% springwater. 6 shades. $7.35
Almay Teen Treatments and Cosmetics Clean Up Cleansing bar Totally Clean Face Cleansers Clean Out Cleansing Pads Clean Off Skin Astringent Extra Clean Skin Astringent Trouble Spotter Acne Pimple Medication Oil Stopper Anti Acne Gel Oil Free Makeup Mega Eyes Pencils Liquid Outliner	Almay	1st '92	Treatment and makeup collection targeted toward teens. Seven skin care essentials and three cosmetic basics. SRPs: $2.60 to $4.00 for cleansers; $5.00 for specialty items; $3.75 for face makeup.

Source: *Drug Store News* Survey.

Specialty items grab spotlight in skin care

This year, specialty items are emerging as one of the strongest growth categories within skin care.

F&M is testing a new line of carded cosmetic skin care specialty items that pull together about 15 different specialty treatment products under one label: the Signature brand from Winarick.

"They have the specialty items you can buy in department stores, like a wrinkle serum or an eye defense gel, but their pricing is very moderate—between $4 and $6," says Gardocki. "I think if you can pull these little specialty items together under one brand with reasonable retails, you have a better presentation and the chance to induce more customers to try the items."

On the West Coast, there is a growing interest in correction cosmetics, sometimes known as "camouflage" cosmetics.

Carolyn Redmond, cosmetics manager for a Longs store in Auburn, Calif., reports that consumers are coming in looking for items like Sudden Change or the leg and face makeups from Covermark.

"We're getting numerous calls for Sudden Change and I think it's because of the advertising they're breaking," she says. "We've had Covermark about six months now and it's constantly moving, and I think that's because there's a market for it. The other cosmetics we stock aren't meant to camouflage flaws. Covermark fills an unmet need."

At Revco, Judy Wray, senior cosmetics buyer, describes lines like the Winarick's Signature specialty skin care family of products, CCA's Sudden Change and the West Cabot specialty items as "real niche businesses that are very interesting to develop.

"They do quite a lot of business for what they are. We do an encouraging amount of business with Sudden Change in our side-wing program."

In New York, Stephanie Hayter, who buys cosmetics for Genovese Drug Stores, is hoping that Noxell's current relaunch of its Clarion line will re-spark skin treatment sales.

"They're using more shelf talkers to identify specific product benefits, and that could be good," she said.

Hayter also feels that the new Almay Problem Solution benefit-specific skin care line, which was recently launched, should do well. "Women should find it easy to use, since Almay links the problem with the solution-products in the line," she says.

In Texas, Phil Turner, Cullum's cosmetic buyer, says Tom Thumb Page is in the process of converting its stores to a family merchandising presentation, which will let the franchised skin treatment lines be merchandised next to their sister lines in color cosmetics. He's hoping that may spark sales.

"Plénitude is the best line that we have right now," he says. Its new eye cream has been particularly strong.

In Minneapolis, Susan Lund, who buys cosmetics for Snyder Drug Stores, says her skin care sales are still growing, but her strongest business is coming from the well-known brands that are merchandised on the wall in cosmetics.

"The smaller brands are slow. People seem to be buying what they see advertised: Plénitude, Almay, Olay and such."

Lund says Almay "has a lot of nice little niche items, and people like them. Everyone likes to think they have sensitive skin too, and that image has helped Almay."

> *'Women are working, and now and then they want to treat themselves to a bubble bath and they'll pay more for a nice product.'*
>
> **Monk, Harco**

Bonne Bell skin care also does great for Snyder. "Their whole 10-0-6 line really moves for us. And they don't have real deep pockets for advertising, but they do enough to keep their name visible and viable."

Bath care

In Alabama, bath products are doing particularly well for Harco Drug right now. Buyer Charles Monk is going to add a six SKU assortment of Vita Bath to his department to see if it will satisfy the needs of customers who want a more premium line of products.

"Women are working today, and every now and then, they want to treat themselves to a nice bath oil or a bubble bath, something relaxing, and they'll pay more for a nice product," he says.

Hair care gets lift; while skin, sun sales shine

So far in 1992, hair care sales overall have been flat for most chain drug stores.

However, there are growth segments, particularly value-price brands like White Rain and Suave; higher-end premium brands with heavy advertising support behind them like Salon Selectives, Finesse and Colorvive; salon knock-off brands like the Russ Kalvin "generic" versions of popular salon brands; two-in-one formulas like Pert Plus and Vidal Sassoon Advanced Care; and specialty items like friz controllers, shine enhancers and hot oil treatments.

In the skin care segment of toiletries, dollar sales overall have been stronger, up as much as 10 percent to 12 percent for some chains.

Sales have been even higher for chains experimenting with upscale presentations, which often include prestige HBA lines like Plenitude, Neutrogena, Olay, Nivea and Freeman merchandised as regimens together with the franchised lines like Almay, Revlon and Clarion, and sometimes with department store lines like Clinique, Elizabeth Arden and Esteé Lauder.

Sun care sales have also been strong, fueled by decent weather in most parts of the country during the peak season, as well as by ever-growing concerns of potential sun exposure damage.

Another segment of skin care showing above-average growth is bath care. Many chains are trying boutique bath care presentations and endcaps that spotlight full bath care regimen lines, like Sarah Michaels and Naturistics.

Overall, toiletries grew 5.4 percent to $4.84 billion at drug chains in 1991 on the strength of these leading categories.

Hair care

Now that hair care has evolved into a high tonnage, commodity category with distribution in many different kinds of mass market outlets, chain drug store merchandisers are fine-tuning their planograms.

Many chains, among them Perry Drug, Harco, Revco and Drug Emporium, are shrinking the space they give the slowest-turning segments and brands, like mid-priced shampoos, to give expanded space to the growth segments or the niche brands with greater profit potential.

"The hair care category is flat," says Perry Drug's hair care buyer, Dave McDermott, "but the premium and the low-end brands in the shampoo category are growing, and so are brands in the specialty segment."

McDermott has shrunk his hair care presentation of mid-priced lines and given the space to premium lines like Vibrance and Freeman, which is being moved out of Perry's planogram for professional hair care products and into the planogram for premium lines.

Snyder's hair care buyer, Paul Carlson, has given more and more space to specialty items like Frizz-Ease or Hask Pure Shine.

Carlson says that what he like best about the specialty lines targeted to specific niche needs are their profits. "Even a premium line like Salon Selectives has gotten so popular that everyone advertises it these days," Carlson says.

"It's getting harder and harder to make money on the big brands because everybody has them, and who can compete with Wal-Mart and Drug Emporium everyday?"

Carlson has also brought in the Russ Kalvin line and done well with it.

He says "It's a good, steady business at decent margins. A customer doesn't always want to spend $8 or $9 for the salon brands. But she will spend $3 or $4 if she can find a comparable brand in our stores."

In Alabama, Harco's Charles Monk has a new planogram for hair care that merchandises all the premium-priced shampoos on the top two shelves right at eye level.

"We've put all the higher-priced brands—Vidal Sassoon, Colorvive and Permavive—on the top shelves to make it even easier for shoppers to find them. This is our best category in shampoos, and it's also the most profitable. So far, the presentation is working. Our sales on these lines are up," Monk says.

At Drug Emporium in Columbus, HBA director Dale Rogers is continuing to merchandise the department by price points. Professional brands lead the department; the next section is for brands that were professional but are now warehoused like Infusium; then come the mass brands with a professional image like Salon Selectives; and so on down to the price-value brands.

Rogers says the presentation has been very effective, making the higher-end brands more visible generating multiple sales within families.

Skin care

Chains like Drug Emporium, F&M and Eckerd, which have merchandising programs that enhance the presentation of upscale lines in some type of skin care center or regimen department, are reporting the strongest growth in skin care.

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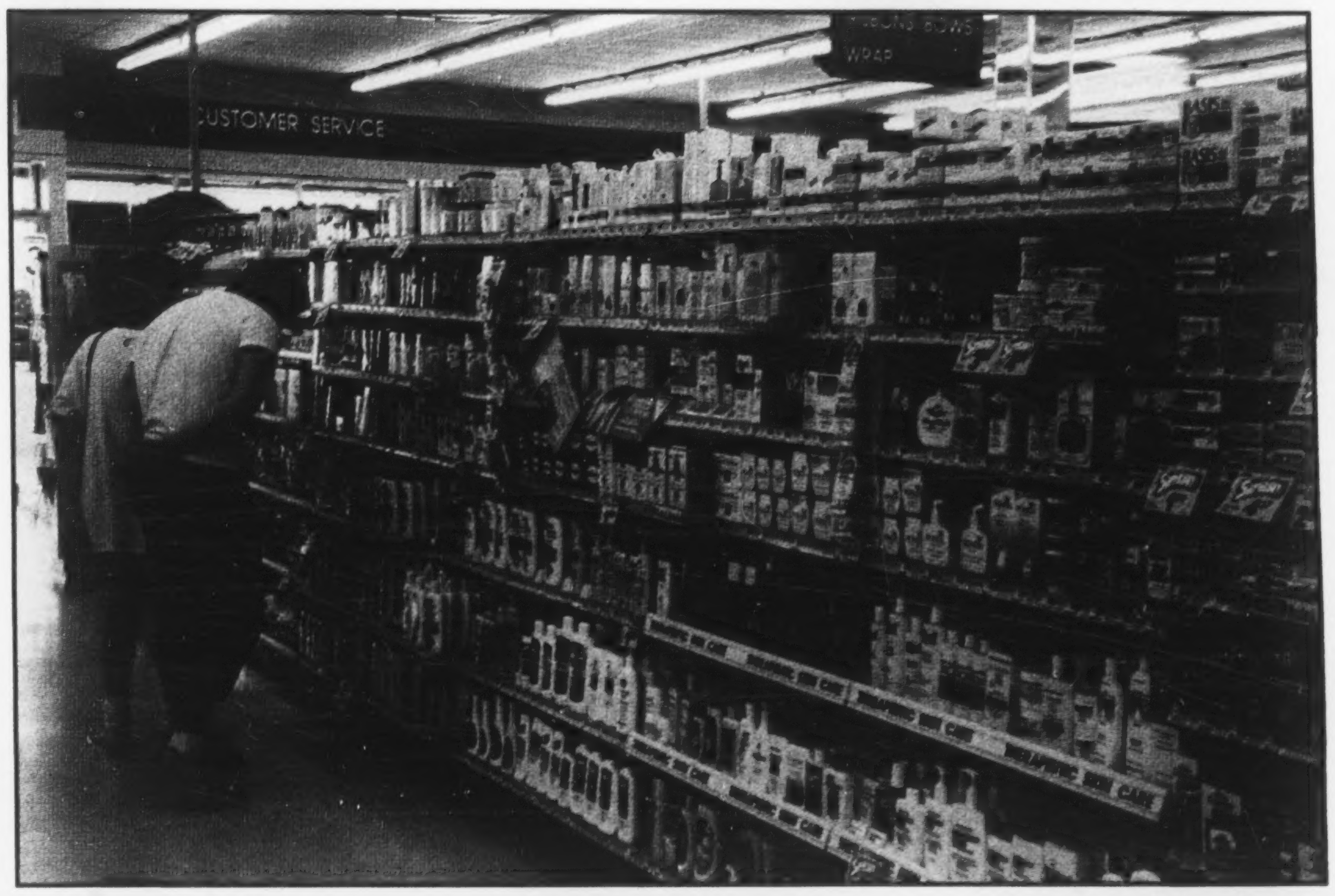


Fast-growth skin care products are well delineated at Eckerd, which also uses shelf extenders, price comparison signage and manufacturer literature to capture shopper attention.

At Shoppers Drug Mart, mainstay toothpastes are surrounded by high-margin dental accessories to bring extra profits to heavily trafficked category.

1990 toiletries department highlights in chain drug stores

Chain drug toiletries sales	$4,842,509,000
1991 percentage increase	5.4%
Percentage of total chain drug sales	10.0%
Typical gross margins	18%-25%
1991 industry profit yield from toiletries	$872,000,000-$1,200,000,000
Average annual department turns	4.5

Source: 1992 *Drug Store News* industry survey.

1991 toiletries department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Skin care			
Face creams/lotions	$ 491,091	7.0%	10.1%
Hand/body preps	346,844	3.8	7.2
Acne preps	257,812	8.4	5.3
Suntan/protection	161,211	5.8	3.3
Specialty soaps	88,553	1.9	1.8
Hair care			
Shampoos	505,730	5.7	10.4
Conditioners/rinses	391,720	4.6	8.1
Hair color	316,723	8.4	6.5
Styling aids	183,278	7.9	3.8
Sprays	106,490	4.1	2.2
Perms	73,216	6.8	1.5
Accessories	54,898	7.3	1.1
Men's hair preps	107,206	7.4	2.2
Ethnic	313,023	4.5	6.5
Deodorants	500,424	4.6	10.3
Razors and blades	408,787	7.1	8.4
Shave creams/gels	149,488	8.7	3.1
After shave preps	83,808	1.4	1.7
Pre shave preps	12,057	0.6	0.2
Depilatories	16,662	1.7	0.3
Miscellaneous	273,487	6.8	5.6
Total	$4,842,509		

Source: 1992 *Drug Store News* industry survey.

Hair care gets lift; while skin, sun sales shine

Continued from page 73

Their presentations have been designed to increase the visibility of the category within their stores, to make it easier for customers to shop the category "their way rather than the store's way," as one buyer put it, and to enhance the image and profitability of the category by expanding the assortment to include upscale lines like Clinique, Esteé Lauder and Elizabeth Arden whenever possible.

In Detroit, F&M has developed several different merchandising presentations for upscale skin care lines.

F&M merchandises family lines like Revlon, Almay and Clarion on the wall with color cosmetics; but in some stores, it also cross-merchandises these lines in what Pat Gardocki, director of cosmetics, calls F&M's new "regimen" skin care department.

The 24-ft., vertical skin care regimen set is currently just in F&M's newest prototype stores, but Gardocki says the presentation is so attractive that F&M plans to put it in all new and remodeled stores.

Gardocki says F&M hopes to roll out a smaller version of the regimen set to all F&M stores, but with space allocations that fit existing store needs.

Gardocki says F&M is trying to develop planograms that organize departments the way customers use them.

"The customer doesn't distinguish between Neutrogena as an HBA line or Almay as a franchised line. That's a distinction we make as retailers. We think that customers who are interested in regimen skin care or in family lines want to see them merchandised together. It's easier for them."

Sun care

In sun care, the hot spots right now are the sport lotions and the self-tanning lotions.

In Detroit, Pam Nyberg, senior HBC cosmetics buyer for Perry Drug, says she is seeing the most dramatic growth in the those two subcategories.

Nyberg says Perry had a good selling season last year due to good weather, and hopes for another decent year in 1992.

Perry merchandises suncare by families in sets that range from 8 to 12 feet at peak season.

This year, Perry has added one new line to its planogram, Vuarent. Nyberg says she thinks the packaging is attractive, and it has a good name. "If it does well, it will add to Perry's profits," she said. Last year, Nyberg added the Panama Jack family line to her planogram, and it did very well.

Most chains are giving more and more space to the major sun care lines, especially the Schering-Plough lines; Coppertone's Water Babies, Tropical Blend and Shade; and Bain de Soleil, which has successfully repositioned itself so that its high-protection SKUs sell just as well as the tanning SKUs that made the line famous.

Other strong lines are Hawaiian Tropic, Banana Boat, VIC Sun Care, and Panama Jack.

In Texas, Cullum's sun care buyer, Phil Turner, says the Bain de Soleil and Coppertone self tanners and sport lotions are selling like there's no tomorrow, which apparently some sun-wary consumers think there may not be, if they don't protect themselves.

Turner says all line extensions of the sports lotions and sunless tanning lotions are doing well.

In Columbus, Ohio, Dale Rogers, Drug Emporium's HBA director, says "the best SKU in every line I have is Sunless. In Banana Boat, Sunless accounts for 35 percent of my sales, and it's in the top movers for Coppertone, Hawaiian Tropic and Bain de Soleil.

In New York, Robert Burtis, who buys sun care for Kinney Drug, says he's stocking the formulas that consumers associate with a given brand's area of expertise. That means he's basically carrying just the tanning SKUs from Hawaiian Tropic and more of the higher SPFs from Bain de Soléil.

This year, Kinney is testing some lower SPF items from Vuarent because Burtis thinks they will appeal especially to teenage consumers.

"They're imported from France and the package is very superior. I just have a very good gut feel about the line. If they sell, I'll expand the line next year."

In Minneapolis, Paul Carlson, who buys sun care for Snyder Drug, says sunless tanning and sport lotions are selling well, but so far this year there seems to be less innovation in the category than there has been in previous years.

However, Carlson likes the new Hawaiian Tropic SPF 15 sunless tanning lotion because it's the first sunless with that high an SPF, "and you know sales of the higher SPF sun protection items have been very strong."

At Drug Emporium, Dale Rogers also thinks the Hawaiian Tropic Sunless Lotion SPF 15 will be a winner, saying "a sunless lotion with SPF 15 should meet a real need."

Schering-Plough has also introduced an 8-oz., economy-size to Water Babies, and Rogers thinks this SKU will also do well. "Mothers who use Water Babies on their kids tend to use a lot, and this will give them a good value. Plus, Coppertone owns that category with Water Babies."

Coppertone also has a high SPF 30 Sport Lotion, and because the trend has been towards higher SPFs selling well, Carlson also thinks that will be a winner.

What's new in hair

Product's brand name	Manufacturer	Launch date quarter	Comments
Rave	Chesebrough-Pond's	3rd '92	Repackaged.
Pantene Pro V Shampoo and Pro-Vitamin Conditioner In One and Pro-V Pro-Vitamin Treatment Conditioner	P&G	1st '92	New line. 1st 2-in-1 with Pro-vitamins. 13 oz. Priced approximately the same as the 7 oz. regular Pantene line. $3.69 4 formulas plus 2 deep conditioners. Shine enhancing. Improves health of hair.
Clairol Condition 3-in-1 Shampoo Plus	Clairol	1st '92	New line. Cleanser with conditioning and protective benefits, all in one step. 4 formulas. 12 oz. $2.59 SRP ProVitamin B 5 and sunscreens. National rollout.
Alberto Frizz Solver and Shine Enhancer Leave-In Conditioner Upside Down Volumizing Spray	Alberto Culver	1st '92	Line extensions. Multi-benefits Conditions without weighing hair down Innovative package. Upside down can sprays evenly and consistently from any angle. $2.99.
Salon Profile	Goody Products	1st '92	Innovative new brush line ergonomically designed with distinctive "hold me" contour shapes and comfort grip.
Twist Wrap	Goody Products	1st '92	New hair accessory collection. Ruffled ponytailers in an array of fabrics and colors.
Citré Shine Foam Brilliance Styling Mousse	Advanced Research Laboratories	1st '92	Super body styling-mousse. $3.99 to $4.99.
Rogaine For Women	Upjohn	1st '92	Prescription drug that helps remedy hair loss. Ads state it is the only product proven to grow hair.
Vibrance	Helene Curtis	1st '92	Major launch. New premium priced line of shampoos and conditioners. $50 million lst year ad budget.
Playtex Jhirmack La Coupe	Sara Lee	1st '92	Sara Lee acquires a 25-percent share of Playtex personal care products.
Studio Line Roller Derby	L'Oreal	1st '92	Line Extension. Styling product with a specific niche. For consumers who use non-heated roller sets or pin-sets. Quickly curls or waves. Conditions hair. Holds shape. Adds body and bounce. $3.69.
Lilt Styling Line Spritzer For Perms Spray Gel Revitalizer For Perms	Dep	1st '92	New styling line from the Lilt Home Perm brand. 3 SKUs for permed and curled hair. SRP $2.99.
Lilt For Total Condition	Dep	1st '92	Line extension. A self conditioning, self timing perm. SRP $6.99
Forget The Frizz Moisturizing Shampoo Remoisturizing Conditioner Frizz Eliminator Curl Enhancer Leave-In Conditioning Nourishment Alcohol-free Hair Spray Alcohol-free Spray Gel	BSP Labs	1st '92	New line of "environmentally safe" hair care products to alleviate dry, frizzy hair. 7 SKUs.
L'Oréal Permavive Technicare Gentle Shampoo Conditioner Curl Energy AntiDry Five Minute Treatment	L'Oréal	1st '92	New line of six "scientifically advanced" products for permed hair. $3.79 SRP Unique, innovative formula that both conditions hair while energizing curls. Two formulas for the shampoo and conditioner. $17 million in ad support for 1992. Major launch.
Jose Eber Hair Care	Jose Eber Hair Care Co.	1st '92	Nationwide rollout. Expanding distribution. Was relaunched in 11 states 2/91. SRP $3.49 to $3.99. 16 sku line. $15 million in ad support.

Source: *Drug Store News Survey.*

Chains push mass ethnic lines with upscale promotions

With sales essentially flat in the ethnic category, chains are promoting more and also upscaling their presentations.

Some are adopting a micromarketing strategy, setting their stores in high-volume ethnic neighborhoods with the shades and products preferred by African-American or Hispanic consumers.

And almost every chain is expanding its ethnic cosmetic presentation to take advantage of the success of new mass ethnic cosmetic lines like Maybelline's Shades of You, Pavion's Black Radiance, Artmatic's Tropez, Worlds of Curls' Simply Satin and Almay's new Darker Tones.

Down the line, chains are getting ready for two new entries into the category later this year, one by Revlon and the other by Cover Girl.

Ethnic cosmetics has been the brightest segment of the category, with many chains reporting sales increases as high as 50 percent to 75 percent as they roll out new lines and shades to more stores.

Most buyers with four or more high volume ethnic stores now have at least three ethnic lines in their planogram, usually Posner and Shades of You in the mid-price range and either Black Radiance or Tropez in the lower price range. A few chains like Walgreens have added Simply Satin, the highest price point mass line, to their planogram and reported very good movement.

Photo courtesy of Tropez.

The Almay line was just showing up in stores at presstime, but buyers were already reporting robust sales. Most chains are simply replacing the white shades in their planogram with the new shades formulated specifically for darker skin tones.

The ethnic hair care story, on the other hand, has been disappointing. Last year and for the first quarter of 1992, chain drug category sales have remained flat. Both distributors and buyers for retail drug chains say the problem is that no high maintenance styling trends have emerged to drive sales.

With a few notable exceptions, there has not been a lot of activity in new products. What's more, competition from other trade classes like Beauty and Barber stores and discount department stores is intensifying.

"Except for ethnic cosmetics, which has really taken off, ethnic beauty care sales are flat," says Harco's ethnic hair care buyer Charles Monk.

Ethnic cosmetics has been the brightest segment of the category, with sales increases as high as 50 to 75 percent.

"Ethnic hair care sales has been a little soft for us," says Perry's vp of merchandising, Steve Lund. "There's a lot more competition from other trade classes. And in Detroit, we have extra competition from the beauty and barber stores. They operate with such a low overhead that's hard to compete on prices."

Some chains are trying to revive the category by reexamining their pricing strategy. Perry has cut back prices on key ethnic hair care items, while the buyer for another major mid-west regional chain is examining her pricing and hoping to persuade management to take a roll back.

Photo courtesy of Shades of You.

Many buyers are also trying to develop marketing initiatives that don't rely on price alone to drive sales. Particularly when faced with competition from B & B shops, many chains have discovered that they can't compete on price without cutting margins to the bone.

"If I cut my margins much further," said one buyer, "my management is going to ask me why we have this category. If we can't make any money on it, they're want to drop it, and if we drop it, I know I will lose customers in ethnic neighborhoods in droves. So we are trying to look for other avenues of reaching this market."

For many chains, that means changing their advertising strategy to include popular black radio stations as well as print; direct mail as well as in-store circulars; in-store events like contests and make-overs to create excitement.

More and more chains are trying to develop community service programs like the Perry Drug Doo-It-Up art achievement awards that help local high school students win $1,000 grants.

Chains with major concentrations of high-volume ethnic stores like Walgreens, Eckerd and CVS/Peoples are co-sponsoring fund raising drives to benefit institutions like the United Negro College Fund. Others like Harco are sponsoring fundraising drives for local churches.

Dazzling styles, lower prices help 'write' up gains

Fashion, color and licenses drove the back-to-school end of stationery, while home office grew in part from successful introductions of lower-ticket items for executives on a budget.

Overall, stationery advanced more than 8 percent in 1991, owing to its strength as a staple even in a sluggish economy.

A move to push the category's buying shows up from the previous February time slot to November and December gave retailers a jump start on creating their merchandise mixes for 1992. Many retailers felt that the new timing better suits their buying schedules.

At the industry shows in Chicago in November and New Orleans in December, bright colors, dizzying designs and glittery surfaces—on everything from Pentech pencils to K&M three-ring binders—got buyers' full attention.

Moms, children and school supplies are a major market drug chains can satisfy with everyday paper goods and writing instruments at competitive prices.

Colors, styles

Holographic patterns and geometrics signaled a throwback to the '60s. In terms of color, jewel tones (in violet, teal and emerald) appeared on the scene as a counterpoint to the neon colors which have dominated back-to-school products for the past two years.

In contrast to fashion and color, Stuart Hall identified an important niche in back-to-school. The vendors Tech—with improved binding, heavier paper and an organizational pocket—is designed to appeal to forward-thinking high school students who want their notebooks to look like college-quality products.

Licenses

For the younger and less-serious minded, retailers reported that licenses were still strong. Although sales of Teenage Mutant Ninja Turtles merchandise cooled off a bit, *The Little Mermaid*, *101 Dalmations* and "Beverly Hills, 90210" licensed products had plenty of steam. And at chains such as Walgreens, Barbie retained her title as queen of licensing on products targeted at little girls.

Mead's Electric Mickey products, which had great appeal for the small set, performed well in stores. The category is expected to get more fuel from *Beauty and the Beast*-themed merchandise in 1992. And the licensed character to watch in 1992 is James Bond, Jr.

Consumers also responded to new features in pens and made more multi-pack purchases. PaperMate's flex grip line rubberized barrel stick pens continued to double their sales—even at its $1.09 average retail.

Home office

Home office got a dose of fashion. Practicality and function hasn't been sacrificed for this plunge, however. In an effort to bring organization to a greater number of customers, some manufacturers have introduced lower priced lines to appeal to the industrious consumer on a budget.

Rubbermaid introduced an eight-SKU line of desk items in new art deco design retailing for 59 cents to $5.99. Esselte Pendaflex now offers a line of file boxes at lower price points than its other, similar lines.

Although growth in home office hasn't sustained its dizzying pace of the past few years, some chains, such as Phar-Mor, expanded their departments in 1991. The chain is backing home office in a big way, with big-ticket office supplies at many locations and a catalog business.

Green products

Recycled products still get a mixed review from retailers. Snyder and Hook-SupeRx found that only if they offered customers a recycled product that was of similar quality and price to other products, green would sell.

Vendors continue to market green products but with an eye on keeping them priced on par with non-recycled products. Stuart Hall unveiled its improved Green Leaf line, which is 100 percent recyclable and has a 60- to 100-percent post-consumer waste product. Esselte is still holding strong with its EarthWise line.

One bright area for retailers was arts and crafts products. Retailers are finding that activity kits that combine fun and learning have great appeal among kids and their parents. Retailers enjoy their 50-percent margin.

Retailers also found that when offering customers an obvious advantage, such as washable markers, they could get parents to trade up on purchases. Binney and Smith's washable crayons and Pentapco Inc.'s washable markers have been favorites among buyers for their sales' appeal.

Drug chains snatched a piece of the surging home office business, and grew stationery 8.3 percent through improved, well organized assortments.

Binney and Smith, Rose Art and Creative Learning Products introduced a slew of new activity kits for 1992 in a variety of price points. Rose Art's kits are priced up to $19.99, while Creative Learning Products' kits retail for $5.99.

1991 stationery/greeting cards highlights in chain drug stores

Chain drug stationery/card sales	$2,474,592,000
1991 percentage increase	8.3%
Percentage of total chain drug sales	5.1%
Typical gross margins	40%-50%
1991 industry profit yield from stationery/cards	$990,000,000-$1,235,000,000
Average annual department turns	4.7

Source: 1992 *Drug Store News* industry survey.

1991 stationery/cards department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
School/home office	$1,090,148	44.1%	44.1%
School goods	388,151	9.7	15.7
Home office	188,189	6.3	7.6
Writing instruments	149,991	8.4	6.1
Activity kits/crafts	154,334	8.6	6.2
Mailing center	122,887	8.3	5.0
Social stationery	86,597	4.2	3.5
Greeting cards	843,492	8.6	34.1
Gift wrap/party goods	195,960	6.3	7.9
Books & magazines	344,991	7.2	13.9
TOTAL	$2,474,592		

Source: 1992 *Drug Store News* industry survey.

Cards substitute for gifts, rack up solid '91

CUSTOMER SERVICE

Many chains sell helium-filled mylar balloons, but Eckerd goes a step further, merchandising them with greeting cards for extra impulse and tie-in appeal.

The recession hasn't hurt the greeting card category; in fact, it may be helping. While a squeeze on their budgets may force consumers to reconsider gift buying, cards remain a relatively inexpensive impulse purchase.

That may have contributed to the growth of the category. U.S. retail sales of greeting cards totalled $5 billion in 1991, according to the Greeting Card Association. That represents a growth of 8 percent over 1990's annual sales of about $4.6 billion.

Drug stores hold the No. 2 spot among distribution channels in terms of greeting card purchases, just behind card and gift shops. The category has one of the highest profit margins per square foot—about 55 percent.

Discount prices

Retailers are aggressively marketing the cards. Some, like Phar-Mor and Drug Emporium, are offering everyday discount prices on cards. The promotions are made possible by upfront cash discounts offered to high volume retailers by manufacturers such as American Greetings.

Not only are manufacturers offering incentives to retailers to gain a greater market share, but also some, such as Gibson and Ambassador, are tightening up display racks so that they can market more product in smaller spaces.

For retailers with selling space less than 60 feet, Ambassadors's Strike Zone program integrates traditional and alternative cards into one rack. The best-selling cards are merchandised at eye level. The Strike Zone program, which organizes cards into clearly-defined sending occasions and uses ColorCue pop-out signage to indentify the categories, has enabled retailers to drive up their unit and dollar sales volume. In test sites, sales jumped 21 percent when the merchandising strategy was employed.

American Greetings has a similar Supertray program, which merchandises balanced product assortments in best-selling themes. The Supertrays, available in 2-, 3-, and 4-foot assortments, can be placed on feature ends or gondolas, or they can be used in other locations throughout the store.

That's important since, by some accounts, greeting cards are becoming a destination item, while other retailers remain unconvinced and are placing cards in high traffic areas in the hopes of sparking additional impulse buys.

American Greetings introduced a similar concept in gift wrap. The manufacturer's Gift Wrap Express concept integrates all wrap products in boutiques by occasion in a wave concept.

Themed promotions

One of the most exciting trends in the category is a move to create traffic-stopping decor throughout the store using themed promotions.

American Greetings' haunted castle, complete with eerie music and billowing curtains, helped PayLess Drug Stores make a big Halloween splash and establish the chain as a seasonal destination. American Greetings developed floor-to-ceiling Christmas decor, creating the effect of an arched entranceway, for promotional and seasonal aisles at 208 Perry Drug Stores. Both chains are working with the vendor on Easter promotions.

American Greetings has also been successful with its "American Greetings to the World" pen-pal program.

In addition, 1991 was a year of more card choices than ever before for the consumer. Alternative cards are growing at a rate of 10 to 15 percent; the subcategory now represents about 25 percent of business at American Greetings. The humorous off-beat cards are appealing to more men; American Greetings estimates that men now account for 12 percent of purchases. That number is up from 8 percent two years ago.

In addition, manufacturers have introduced other lines directed at specific audiences in the hopes of grabbing an even greater market share.

- American Greetings introduced a line of greeting cards for the visually impaired.
- Hallmark plans to introduce a line of cards for people in recovery from addiction this month and a line of Nurses' Day cards in May. Hallmark expects 500,000 cards to be exchanged on the first annual day of recognition for the dispensers of TLC.
- Friends of the Family, a division of Recycled Paper Products, introduced a Spanish language line—the first Spanish alternative line.

Top greeting card holidays

Cards sold in 1991

Christmas	2.3 billion
Valentine's Day	1.0 billion
Easter	171 million
Mother's Day	150 million
Father's Day	101 million

Source: Greeting Card Association.

Cards & Gift Wrap 40% Off Every Day
Drug Emporium
COSMETICS FRAGRANCES
SHAVE PROD BLADES
Designer Fragrances Up To 50% Off Every Day
Drug Emporium
40% OFF
Rainbow Thoughts

Drug Emporium uses overhead signs and header cards to drive its price message, and organized endcaps to meet many gift-giving needs.

Photography lessens sting of recessionary picture

To recession-weary customers, a well-defined photo department conveys good times: from dropping off a roll to the pleasure of viewing prints, it's an invitation to stretch memories on a cut-back budget.

For the drug retailer, a photo department means a potential three-trip traffic builder with the biggest payoff in film processing—and uptrending single-use cameras.

But that customer needs a push. Frugal consumers seem to be taking fewer pictures these days, industry observers agree. Ron Koch, vp of technical services for Eckerd, says "if people are hunkering down and not making that trip, then those picture opportunities disappear."

In all trade classes, the photo category reflected the economy in 1991 and early 1992. "The total market is by and large flat," says Harold Martin, editor of the photo industry's Wolfman Report. Film sales and processing hovered at or below 1990 levels, according to estimates by the Photo Marketing Association, which projects a flat outcome in film sales and processing for 1991, but a rise in exposures of around 1 percent, up from 16.79 billion to 16.96 billion exposures due to a shift toward 35mm film.

Industry observers say this could translate into a 2 percent or greater increase in processing revenue.

Overall, the photo/video category advanced 2.7 percent at drug chains in 1991.

Regionally, photo activity was mixed in 1991, with the southeast and southwest outperforming other regions like the northeast and California.

Fuji Photo Film estimates that drug chains lost around 1 percent of film-sales share in the dominant 35mm format, while mass merchandisers picked up share largely through store expansion, notes senior marketing manager Rod King of Fuji.

Thanks to highly visible, aggressive photoprocessing, drug chains command around 25 percent of film developing in the current bear market.

Revenue

Although processing was up slightly in third quarter 1991, the final quarter dimmed the picture. PMA estimates that for all trade classes photoprocessing was down 0.3 percent in rolls processed compared with 1990, according to PMA director of market research Barry Harrand. Drug chains fought for their piece of the shrinking pie "because they're out at the forefront and definitely let customers know they're in the film and photoprocessing business," says Brad Hunsaker, Kodak's director of strategic planning for traditional photo products.

35mm film rose sharply in 1991 over other formats. PMA's Harrand ventures that marginal users, mainly consumers of cartridge film, have "exited temporarily" due to the economy, while stronger users likely to shoot 35mm are staying in the market. With more average exposures per roll and sharper enlargements, the rise in 35mm points toward higher processing dollars where drug chains still show a hard-won edge.

Single-use

PMA's Harrand notes that with single-use cameras, like Kodak's Fun-Saver Panoramic and Telephoto or Fuji's QuickSnap line, the consumer is usually in a hurry to see results.

Single-use cameras came on strong in 1991, although drug chains didn't capture the steep gains snared by mass merchandisers. In all trade classes, PMA estimates a 50 percent increase in single-use cameras, up from 9 million in 1990 to around 14 million.

"We don't see that growth slowing down at all in '92 and '93," says Kodak's Hunsaker. Single-use profits don't negate other sales. When outdoor adventure means risk to a customer's primary camera, or if an unusual photo opportunity arises, those single-use exposures wouldn't otherwise be shot, notes Fuji's Rod King.

In an increasing number of drug store chains, the photo/video department is being redesigned to look state-of-the-art. In its prototype stores, Wilsonville, Ore.-based Pay Less pumps up the photo de-

Continued on page 88

ONE HOUR PHOTO PROCESSING
PayLess EXPRESS
Join Our... ONE HOUR PHOTO CLUB
ASK US FOR DETAILS
WE GUARANTEE EVERY PHOTO!
HOUR PHOTO
ENERGIZER

PayLess guarantees the quality of its one-hour photofinishing service, which means more to convenience-minded consumers than a discount, and keeps margin in the business.

Focusing on green issues

Photo, video and CD manufacturers are greening up to deal with waste disposal problems. Here's a sampling of programs:

- Eastman Kodak's Fun Saver single-use cameras contain messages encouraging labs to return the camera bodies to Kodak for recycling. Kodak pays labs for each shell returned and reimburses shipping expenses. Unrecyclable components are reground to make new plastic while usable batteries are donated to human service agencies.

"Since the program began 18 months ago, 500,000 pounds of plastic has been kept out of the nation's solid waste stream," said Peter M. Palermo, vp and general manager of the consumer imaging division.

- Fuji now manufactures film boxes from recycled paper and is replacing plastic film containers with moisture-proof canisters. It promotes recycling of its QuickSnap single-use cameras by rewarding photofinishers with five cents (plus shipping cost) per unit returned to a Fuji collection center.
- The Silver Coalition, with members from government, photo imaging trade associations and technical societies, is taking steps toward effective treatment of photographic silver as a regulated waste.
- Polaroid introduced a smaller box without polystyrene inserts for its OneStep Flash instant camera and is testing a program in five states to recycle used film packs.
- The recording industry recently announced that by April 1993 it will phase out its CD longbox in favor of the smaller jewel-box-only format.

1991 photo/video department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Film	$ 743,079	2.5%	37.6%
Still color	503,916	2.9	25.5
Instant	231,979	1.8	11.7
Black & white	7,184	0.1	0.4
Processing	753,442	3.2	38.1
Accessories/flash	250,497	1.5	12.7
Blank video cassettes	168,636	2.5	8.5
Cameras	61,127	2.5	3.1
TOTAL	$1,976,782		

Source: 1992 *Drug Store News* industry survey.

1991 photo/video department highlights in chain drug stores

Chain drug photo/video sales	$1,976,782,000
1991 percentage increase	2.7%
Percentage of total chain drug sales	4.1%
Typical gross margins	20%-25%
1991 industry profit yield from photo/video	$395,000,000-$495,000,000
Average annual department turns	8

Source: 1992 *Drug Store News* industry survey.

Photography lessens sting of recession

photo express
photo express
Better pictures, automatically
CHECK
SER

Large prints, speed and quality make up the photofinishing value message in the latest Perry prototype.

Continued from page 87

partment with prime-space positioning and upbeat graphics to stimulate shoppers. Many buyers say the best strategy in a sour economy is to mount tempting value-added promotions such as double prints, free enlargements or albums, and to promote photo opportunities with contests and sponsored events.

Photo needs a boost to garner even 5 percent-plus industry gains. Eckerd's Koch offers evidence of consumer "downsizing," or maximizing a roll. "After Christmas, I saw rolls with Christmas trees and Easter shots on the same roll—I hadn't seen that for 15 years," says Koch. Although retailers and manufacturers report that multipacks are edging up slightly (an increase of 1 percent in 1991, according to Kodak), consumers may be stockpiling more brgain-priced rolls than they're shooting.

Consumer confidence may be at the lowest point in decades, but Koch says: "My advice is to hold steady. Do promotions and don't give the business away. If the demand is not there, dropping the price is not going to change it."

Kyle Westover of Longs Drug Stores agrees: "I think it will correct itself as the economy turns around, and as the photo industry recognizes that we have to promote picture taking."

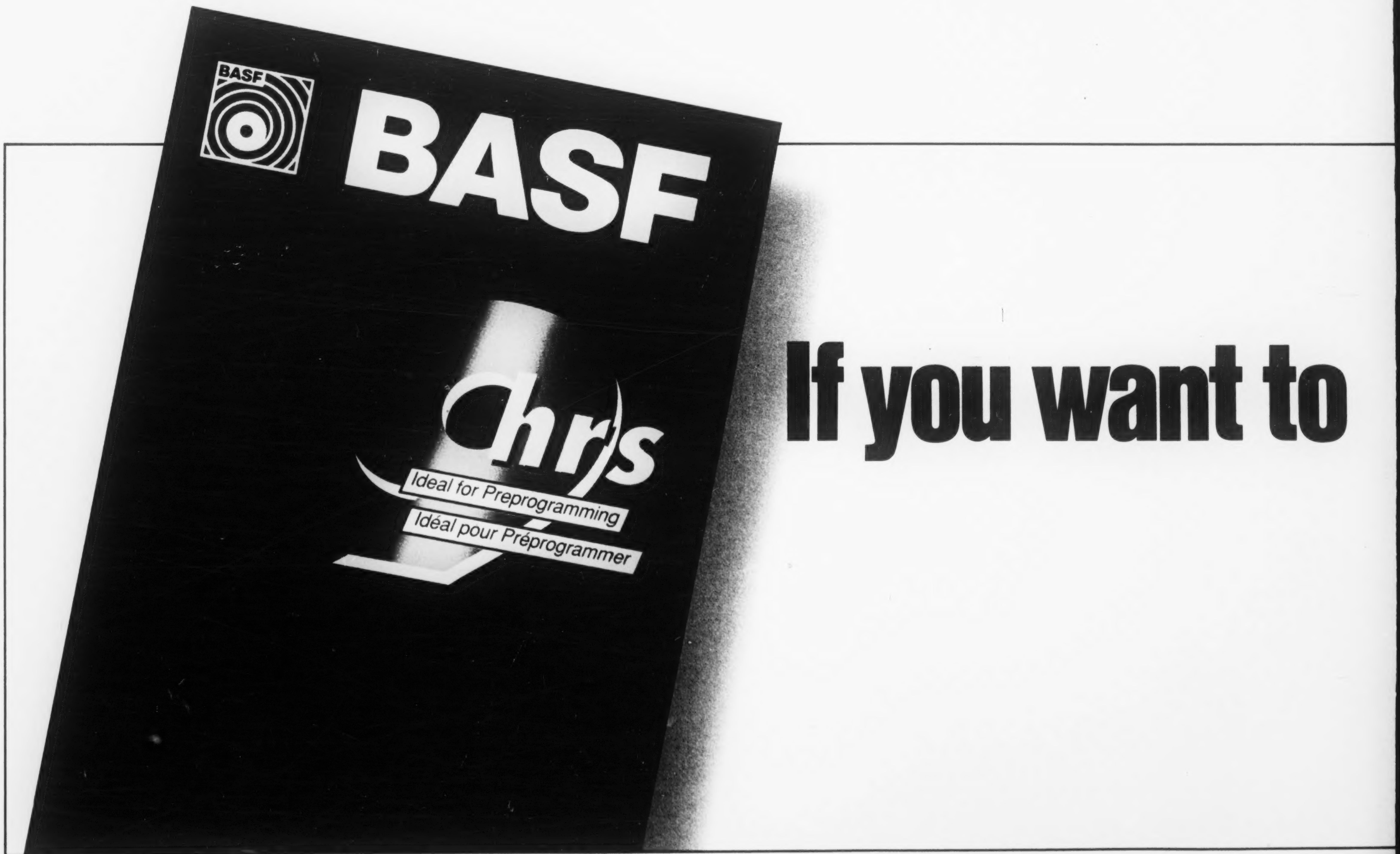
Fast work

Following the lead of Eckerd, Canada's London Drugs, Perry, Longs and other retailers, an increasing number of drug chains including Walgreens are testing or adding in-store labs to protect market share against inroads by mass merchandisers and combo outlets. If tight times have slowed lab rollouts in recent months, competition is sure to propel more drug stores into the on-site lab business, many marketers say.

Eckerd is well-positioned with its Express Photo minilabs in 320 stores. Chains with on-site labs report that overnight developing also benefits from the professional photo-center image. Eckerd's Koch largely attributes the chain's 1991 increase in the photo category to its on-site business.

Suppliers of in-store labs are vying to cover every photoprocessing niche from mid-range to high-volume drug retailers. The smaller or micro systems include Print Technology's PhotoGo (installed in 23 of Perry's 228 stores, for example), and Noritsu's QSS-Micro System. In the larger mini-lab category are Noritsu's QSS-1501 and Fuji's SFA 250 and SFA 270. Recently introduced systems designed to bridge the micro/mini gap include Konica's model 808 and Gretag's upgradable Master Lab series.

> *"Hold steady. Do promotions; don't give the business away. If the demand is not there, dropping the price is not going to change it."*
>
> **—Ron Koch**



Chains view blank tapes as stellar sellers

Savings On Super Sounds
Discount Prices Every Day On Blank Audio Cassettes
Save On Video And Audio Accessories
Compact Discs Super Savings On Super Sounds
COMPACT DISCS
JAZZ
POPULAR
COUNTRY
SOUL

Phar-Mor, which leads many markets with 69-cent video rentals, extends its reach into home entertainment with well-stocked, service CD/audio/videotape department.

Blank tape and disk formats showed mixed sales in drug stores in 1991 and early 1992: some chains reported blank tape down, while other retailers reported increases in a recent telephone sampling by *Drug Store News*. In a keenly competitive market, many buyers rely on aggressive advertising and multipack promotions to keep the blank tape category humming.

Paul Lofgren, buyer for Seattle-based Bartell Drug, says blank video is "doing just great. We heightened the emphasis a year ago in virtually every ad. It's hard to expand on that—but video is still growing."

In contrast, buyer Byron Henry at the Vancouver, Wash.-based Hi-School Pharmacy chain says, "video is definitely flat. It's still a good basic business but the boom is over." But he adds: "8mm is the bright spot as more people now have that equipment."

In all trade classes, blank tape and disk formats showed a rise in 1991, according to estimates by the Electronic Industries Association (EIA). After a rebound in 1990, blank videotape continued to climb in overall retail in 1991 for an estimated 356-million-unit sell-in, pushed by a 10-percent increase in the number of video cameras purchased. The EIA study shows that around 15 percent of households in the U.S. now own videocameras or camcorders, and notes Tom Hix of Nielsen Media Research: "Every year there are more homes with multiple VCRs."

Although the VHS format still dominates the household market, the Photo Marketing Association's (PMA) latest study of camcorders purchased in 1990 shows that 71.9 percent were VHS, 27.3 percent were 8mm, with a negligible 0.8 percent in Beta. The 8mm camcorders still carry a higher price tag than VHS, but the smaller format is making inroads. Industry reports say that giant electronic stores are beginning to push 8mm camcorders, which will accelerate the shift toward the smaller tape format.

Some retailers are narrowing their VHS selection while increasing 8mm selection to hone an image statement. Bartell only carries name brand blank video, for example. "Four or five years ago we swung both ways, both brand and low-end imports. Since we sold as much of both, we decided just to carry the better stuff," says Lofgren.

Sound dollars

In all trade classes, audiotape rose in dollars but not in units, according to EAI. Units dropped around 1 percent from 428 million in 1990 to an estimated 425 million in 1991 while dollars rose around 2 percent to $383 million from $376 million.

"Surprisingly, in dollars we do better with the higher quality," says Lofgren. Bartell promotes blank audiotape aggressively with weekly ads offering high grade one week, and standard grade the next in order to target different markets.

Hi-School Pharmacy posted blank audiotape gains in 1991, an increase Henry says "could be because we're more competitive and running more ads."

On the other hand, the buyer at one large chain notes that blank audiotape is down. "Video is maintaining its own level; it's not down like blank

Continued on page 90

sell more videotape, sell hours.

For home video tapers, extra recording time means extra value. That's why longer-length videotapes are the fastest growing segment in the industry. And that's why BASF is the long-length leader. Only BASF gives consumers the T-130, T-160, *and* T-180, with an additional ½ hour, 2 hours, and 3 hours of recording time, respectively. That's an unbeatable choice of tape lengths for every recording need. With unmatched quality for recording at any speed. So stock up on BASF videotapes today. There's never been a better time to increase your profits.

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Extra Quality

The longer. The better.

Video rentals are a high-identity traffic draw at Randall's combo in Houston. Virtually every shopper passes by it near the store entrance.

Chains see blank tapes as stellar sellers

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audio. I think we have reached a saturation point with blank audiotape." He notes, however, that prerecorded audio is moving better than blank. Byron Henry notes that lower price point prerecorded audio is also performing well.

According to the Record Industry Association, for the first half of 1991, compact discs increased 16.49 percent in units over the same period in 1990, while prerecorded audiocassettes dropped 23.33 percent during the same period.

Despite the overall dip, at least some drug chains are profiting from the huge number of consumers who have multiple audiotape players that cover all occasions, from commuting to jogging to boom-box atmosphere on the beach.

Lofgren at Bartell notes that prerecorded audio is still outperforming CDs, but says, "I feel as time goes on CDs will get better."

Another buyer agrees, noting that although CD sales are flat, he is seeing movement in budget classical CDs priced under $10. "We're happy that the CD category is maintaining its own. I think this flat market will change. It's just a matter of the economy."

Despite the quality-sound achievement of CD technology, with the vast installed base of audiotape players in U.S. households, audiotape manufacturers want to capture a piece of the quality sound market.

BASF, for example, is poised to release its new DCC (Digital Compact Cassettes) product as soon as DCC hardware ships in time for the fall season.

VCR consumer facts

• 7.9 percent of VCR homes in the study purchase one or more blank videotapes per month, with an average of 4 tapes per month

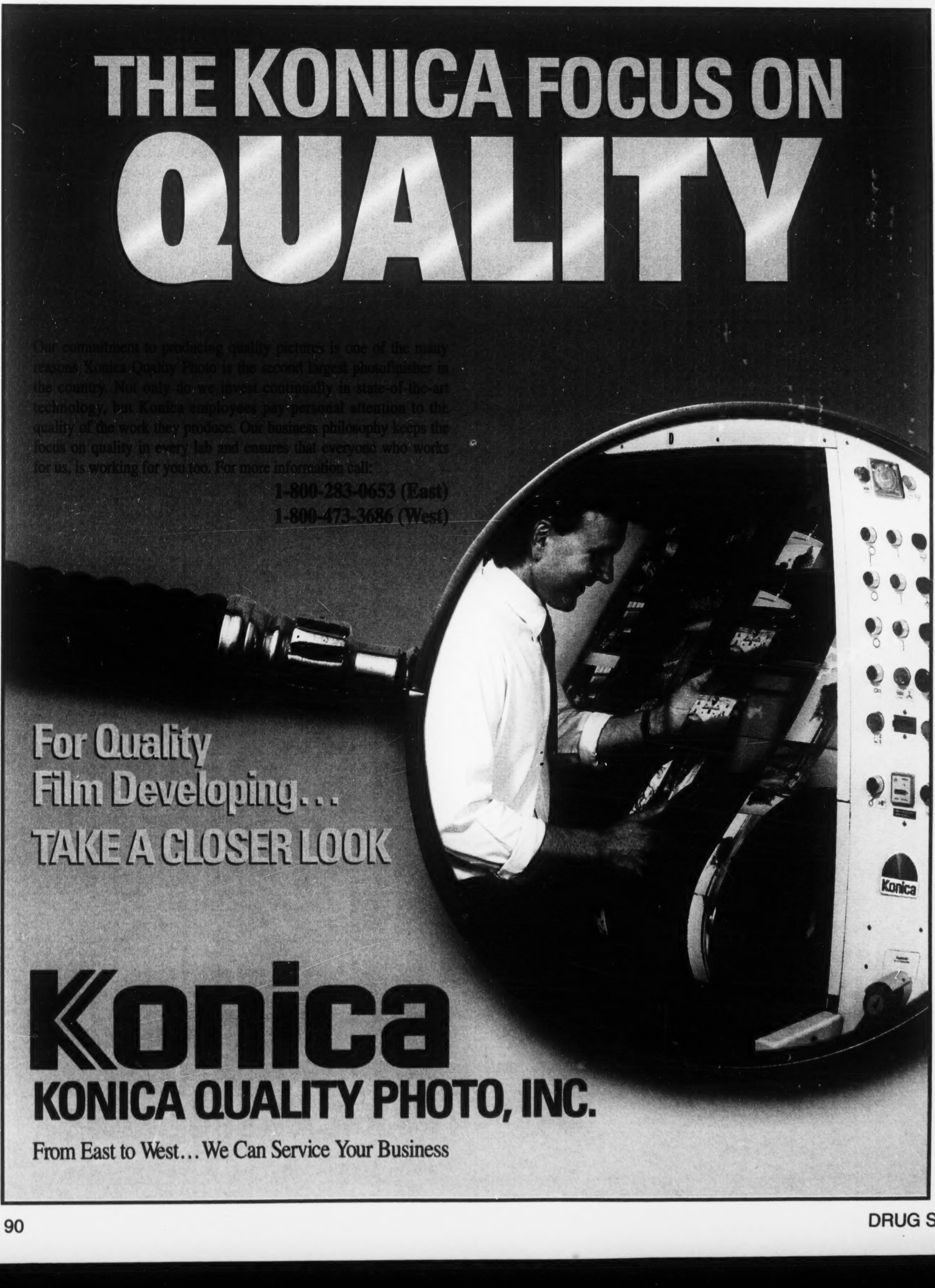
• VCR homes own an average of 3.9 blank videotapes (i.e., not yet taped)

• VCR homes own average of 22.1 recorded videotapes

• 21.9 percent of VCR homes own a video camera

• The average VCR home owns 5.8 videotapes recorded with a video camera.

Source: Nielsen Media Research 3rd quarter '91 study of 900 homes with a VCR.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Snacks crunch hot numbers and lead growth

Consumers trimmed back on big ticket items in 1991 but continued to treat themselves to plenty of feel-good snacks purchased in drug chains. The 9.8 percent dollar gain in snack and cookie sales means that even in tight times, customers look for consumables between trips to the supermarket. More drug chains are meeting the needs of busy working women who want easy solutions for mealtime replenishment and home entertainment.

Popcorn and savory snacks edged up again last year, boosted by line extensions like Frito-Lay's Harvest Cheddar Sun Chips and an upsurge in ready-to-eat popcorn.

Savory snacks widely outpaced cookies, which grew around 3 percent in the drug trade last year, says an A.C. Nielsen study, while drug chains continue to catch the health-minded wave with low-salt and low-fat snacks.

Chains have to be sharp on soda prices because the category is promoted so often. Two-liters and six-packs, which boost average tickets, dominate the PayLess assortment.

At Minneapolis-based Snyder Drug Stores, buyer Rick Burns says: "We've SKUed our assortment toward the health conscious."

He is aiming for a "full-fledged" reduced/no-salt selection in the snack assortment. Another buyer notes "the low salt category is growing and lots of things are coming out new in low salt. Pretzels have been low fat for some time and I think that category is increasing as consumers read the bag and notice low-fat content."

Savory sales

In the latest consumer study by Leo J. Shapiro & Associates for *Food Merchandising*, a sister publication at Lebhar-Friedman, chips and popcorn were cited as snacks most likely to be purchased at an outlet other than a food store, with 6.4 percent of consumers making snack purchases in drug stores.

The study indicated that 27 percent of consumers bought more crackers than a year ago, while 25 percent purchased more popcorn and 22 percent increased their consumption of both chips and cookies.

Drug chains continue to catch the health-minded wave with low-salt and low-fat snacks.

Burns at Snyder has seen a shift in the popcorn category, spurred by good deals and new flavors like cheddar white. Pre-popped product is on the rise with Vic's coming on strong in the past six months because its line offers "light" varieties with low and no salt. On the other hand, says Burns, microwaveable popcorn seems flat. "It's reached a high level but doesn't seem to be growing like it used to," he notes. "If microwave isn't convenient enough any more, then what's next?"

Gift tins of pre-pop are doing well at the chain, especially holiday and sports-team tins. Tripack tins with carmel, cheese and white are good movers he says, who cites those from Houston Foods and Charlotte Charles and says these good performers are backed by the packagers aggressive marketing.

The buyer for a Southeast chain reports that snacks are up and chips remain strong—with strong performances by Keebler and Eagle products—while "popcorn is still hot."

He's looking forward to a popcorn introduction by Eagle and thinks brand recognition will push the newcomer. "They service our stores very well. We're trying to cut back on inventory like everybody else, and we're trying to get more service from our vendors. It helps our turns."

Walgreens is one of the most aggressive food sellers of all drug chains. Shoppers fill in between supermarket visits, snatching up the broad mix in refrigerated cases, snacks and grocery.

Not all chains think less is more, and some use assortment to broadcast the category. On the Oregon-based PayLess chain's Nut Center, Eagle's president Kevin Bowler remarks: "The nut center conveys to a consumer that they sell a lot, and this store is probably a good

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1991 consumables department highlights in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Liquor/wine/beer	$1,018,069	7.3%	51.5%
Soft drinks	295,007	7.0	14.9
Snacks/cookies/chips	180,280	9.8	9.1
Nuts	157,133	5.6	7.9
Canned goods/condiments	84,962	9.6	4.3
Dry packaged groceries	78,811	9.8	4.0
Other foods	132,385	7.7	8.2
TOTAL	$1,946,648		

Source: 1992 *Drug Store News* industry survey.

1991 consumables department productivity in chain drug stores

Chain drug consumables sales	$1,946,648,000
1991 percentage increase	7.4%
Percentage of total chain drug sales	4.0%
Typical gross margins	15%-20%
1991 industry profit yield from photo/video	$291,997,200-$389,329,600
Average annual department turns	5.2%

Source: 1992 *Drug Store News* industry survey.

Snacks pop some hot numbers, lead in growth

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place to buy nuts."

Party center

A mainstay for in-and-out promotions, salty snacks snare bargain hunters and make a tempting menu in ad circulars when paired with traffic-building beverages. One chain recently reconfigured eight stores with a "party center," where chips, nuts, crackers, popcorn and other food items are cross merchandised with soft drinks, liquor, beer and wine to remind shoppers not to leave the store without munchies. "We've not had that concept before—all departments are enhanced," says the buyer.

An aggressive private label program at Fay's attracts price-conscious consumers. Chips are packaged as cholesterol-free, weighing in health concerns.

Snacks are largely on-deal at most drug chains, but an increasing number of outlets are garnering sales with promotional endcaps to channel traffic into mini-convenience marts. There, shoppers discover a fine-tuned selection of everyday basics like coffee, tuna, cereal, and easy mealmakers like Rice A Roni and canned meats.

In-and-out ad activity

Snyder is gearing up to planogram its snack and grocery set but so far has been running the category with in-and-out ad activity. "When we planogram we'll still do ads, but the customer will be able to come in at any time and find Oreos and Triscuits, when in the past they could only find them on promotion," says Burns.

Targeting repeat business, drug store grocery usually offers better prices than convenience stores plus an alternative to massive supermarket checkout lines at rush hour. Frito-Lay reports that its single-serve snack lines are good performers in drug stores. "Impulse purchasing happens frequently in chain drug stores," says spokesperson Beverly Holmes. One buyer remarked that the "downsizing" attitude of the recession seems to have helped smaller sizes and single-serve packaging.

He notes that compared to a large box of cookies priced at $3.99 in a supermarket, a smaller pack at two-for-a-dollar or 99 cents is "not as hard hitting" at checkout.

Sipping profits

Drug stores are holding steady in soft drink sales, going for traffic but swallowing margin to compete with rock-bottom discounters and a wave of private-label product. Soda leads all beverages, with an estimated 25.9 percent of beverage consumption share in 1991.

In 1991, total beverage sales showed gains of 1.6 percent, according to analyst John C. Maxwell of Richmond, Va.-based Wheat First Securities.

Soda is a must-have consumable in drug chains, though it gets mixed reviews: "Soda does fantastic all year," says one buyer, while another counters that "soft drinks are very flat. In this market, very strong grocery operators are going way below cost and it's hurting the soft drink category."

Single-serve units and juice-based beverages are on the rise, with juice blends showing the highest percentage of growth in all beverage categories in 1991 for estimated 9.7 percent increase over 1990, according to Hellen Berry, vp of marketing for Manhattan-based Beverage Marketing Corp.

On the other hand, beer, wine and liquor posted slight declines in all trade classes for the year. But many drug chains have carved out a niche in beverages, such as New Orleans-based K&B, where the beverage category (both soft drinks and alcoholic beverages) is a successful traffic-builder—a driving force behind circulars—and it represents 18 percent of overall sales.

According to major brewers, drug chains showed stronger gains in 1991 than other trade channels in beer sales. Like other consumables, shoppers are going for health-angled product, including premium low cal, low cal popular and non-alcoholic beer—the three fastest-growing beer segments.

Mini-food marts draw convenience shoppers

Supermarket combo chains are nipping at traditional drug chain HBA and pharmacy business, but drug chains are biting back hard with convenience, tempting consumable deals and everyday, high-demand food assortments.

Eckerd, Walgreens and K&B offer packaged grocery assortments that assure repeat customers of meeting most food category needs on their shopping lists.

Dry grocery, as an extension of a snack and beverage set, is moving toward year-round merchandising in more drug outlets. One major chain planogrammed a grocery set with around 70 items in a 6- to 9-foot line throughout its 1,000-plus stores last year.

Cooler and freezer cases cater to the uptrend in single-serve beverages and microwaveable dinners for workers too rushed to cook from scratch. These three chains are well represented in markets with urban professionals, empty-nesters and elderly, all groups with less need for supermarket carts brimming with family-size provisions.

In most drug chains, a mini-food mart means tight focus and good turn. "We're being more selective than in the past," says one buyer. Frito-Lay's Holmes notes that "in drug stores, variety is the least important of all retail channels." Since drug chain customers shop a mini-food mart for convenience, not breadth, drug stores can narrow SKUs to top-selling brands.

Heavy eaters of snacks by lifestyle segment

	1989-90	1984-85
Traditional families	41.4%	48.7%
Busy families*	16.3	15.2
Grandmas/grandpas	16.1	9.7
Couple/no children	9.9	11.0
Empty nesters	7.7	8.3
Young singles	1.0	0.8
Others	7.7	6.3

*Both parents work or only parent works outside the home.

Source: Snack Food Association Consumer Snacking Behavior Report.

Consumables take on a new twist at Revco yogurt shop opened in Garfield Heights, Ohio. Service counter helps lengthen store visits.

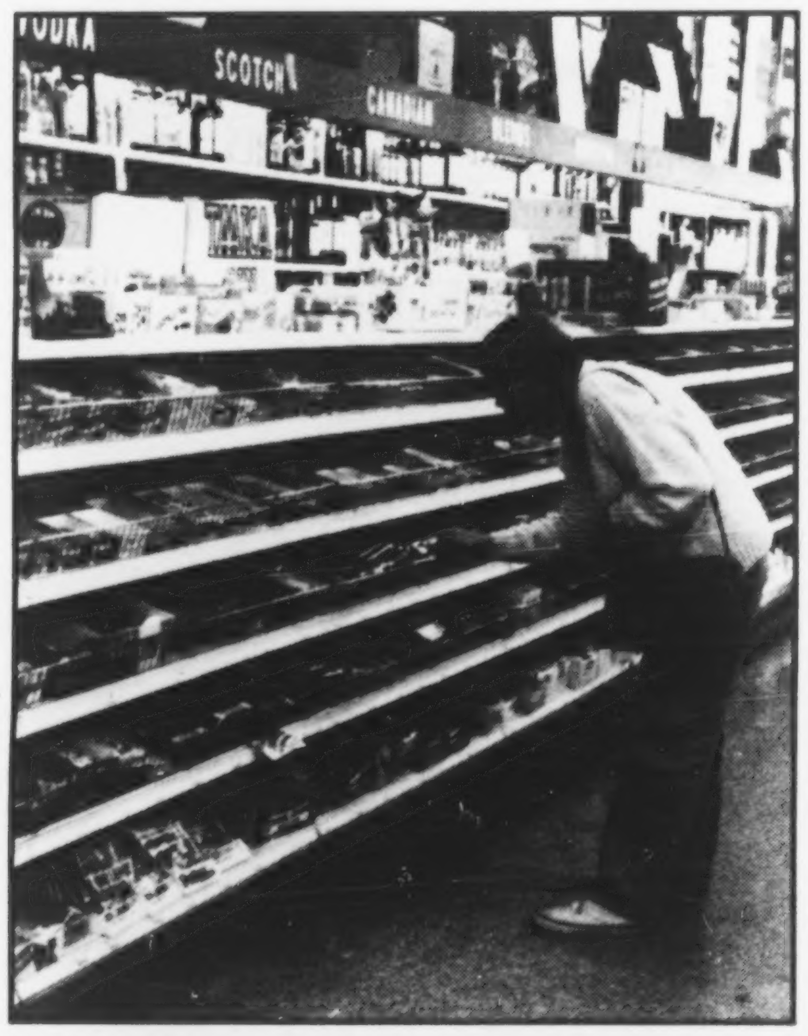
Candy sales a sweet mainstay in sour economy

New product introductions, better packaging and promotional support from manufacturers helped consumers stay sweet on the candy category despite the recession and a slight price hike.

"Candy is adversely affected by a slowdown in traffic patterns," said Ben Cassese, buyer for Chain Drug Marketing Associates. "That wasn't a problem this year since drug stores remained healthy and had steady traffic. The impulse sales were there."

New products give retailers a reason to promote the category and 1991 was a year of many new items from major manufacturers, such as M&M/Mars and Hershey, to specialty vendors, like Stork, U.S.A.

The positive result: a 6.9 percent category sales increase to $1.71 billion in chain drug stores.



Gravity displays at a K&B counter keep candy stock accessible and looking full. New products drove the category this past year.

Manufacturers have been pushing their "25 by 95 strategy," an effort to raise per capita candy consumption. Two years ago, per capita consumption was 22 pounds. Vendors hope that with increased promotion and better packaging, they can push per capita consumption, now at the 22 pound mark, to 25 pounds by 1995.

Seasonal space was expanded at many chains, particularly during Halloween, Valentine's Day and Easter. The trend away from trick or treating hasn't hurt candy sales. Since door-to-door haunting is now being replaced with house parties, the need for candy is still strong.

At Christmas, novelty products, such as gourmet flavored candy canes from Spangler and Bob's Candy Co., were seasonal hits. Gourmet jelly beans continue to gain momentum throughout the year.

To generate more sales during off-season periods, manufacturers have dubbed May "Candy Carnival Month" and are offering promotional prices for the entire department during the slow season in an effort to spark sales.

Retailers have maximized that, and other opportunities, by placing candy in additional locations throughout the store.

"Chain drug stores do an exceptional job promoting the category throughout the store," said Bill Sheehan, manager of communications, National Confectioners Association. "When you consider that 80 percent of candy purchases are impulse driven, putting candy in more than one location makes sense."

Buyers said that even a 5 cent price hike at the beginning of the year did not hurt sales.

"Customers adjusted to the difference," said David Fuchs, buyer at New Orleans-based K&B. "They see very little difference in moving from 40 cents to 45 cents on bar candy."

To offset the price increase, manufacturers cut deals a little deeper allowing chains to still hit lower price points at some times during the year. "We were still able to do three-for-$1 promotions," said Fuchs.

Front- and center-of-store locations maximize the impulse nature of candy, and enable deep discounters to take advantage of their high traffic counts.

In bagged candy, some vendors introduced lower weight promotional lines with a lower price point. Brach introduced its first two-for-$1 line, a 37-item pegged line that meets the retailers' and consumers' need for variety and value. The line is similar to Sathers' successful line at this price point.

Leaf took a pegged approach for greater visibility with its 26-SKU Famous Favorites line of Milk Duds, Good 'n Plenty and Jolly Rancher candies. That line contains bags with the same weight as lay-down bags and a higher price point (between 99 cents and $1.19).

Boxed candy, which traditionally sells best on a seasonal basis, also had a steady year. In addition to staple offerings such as Whitman's and Russell Stover, high-end candy could be found on chain drug retailer shelves as well. Deep disounters such as Rockbottom and Great American Drug Stores are stocking Perugina chocolates at price points between $7 and $9.

Sales of diabetic candy have also grown. As more manufacturers introduce sugar substitute lines for diabetic and dieting customers, retailers are devoting more space to the subcategory. Some chains are devoting four feet of shelving to the area.

1991 candy department highlights in chain drug stores

Chain drug candy sales	$1,711,460,000
1991 percentage increase	6.9%
Percentage of total chain drug sales	3.5%
Typical gross margins	25%-30%
1991 industry profit yield from candy	$427,865,000-$513,438,000
Average annual department turns	8

Source: 1992 *Drug Store News* industry survey.

1991 candy department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Bagged	$ 699,749	7.2%	40.9%
Bars	506,056	6.9	29.6
Boxed	326,912	5.8	19.1
Chewing gum	153,283	5.3	9.0
Other	25,461	5.3	1.5
TOTAL	$1,711,460		

Source: 1991 *Drug Store News* industry survey.

Young categories breathe life into GM

For drug chains in 1991, general merchandise brought an unexpected lift, given the renewed emphasis by merchants on health care and the fierce competition in nonfoods sales.

The greatest advances in general merchandise occurred in relatively young businesses at mass: trading cards and reading glasses. Rainwear made an impact with improved merchandising racks.

And batteries, hosiery and books and magazines continued to show their value within drug chain formats.

Overall, general merchandise managed a 4.6 percent gain in a tough 1991.

Batteries

Batteries remain a good performer and profit center for drug stores even though the upward spiral in sales has slowed from previous years' robust increases.

In 1991, drug stores became a more popular place for consumers to buy lithium/photo, watch/hearing aid and heavy duty batteries, reports Towne-Oller. Sales of the lithium/photo type battery increased from 4.4 percent in 1990 to 8 percent in 1991, nearly doubling its share of drug store battery sales. Watch/hearing aid batteries and heavy duty cells increased their share of drug store volume.

Alkaline batteries declined slightly in their share of total battery sales, however. In 1991 the long-life alkaline batteries accounted for 69 percent of drug store volume, compared to 72.8 percent in 1990.

Rechargeables are gaining a greater foothold in the market, as consumers perceive value despite the greater initial outlay. The high-ticket items are marketed by Gates Energy Products under the Millenium name.

Batteries are expected to show continued growth as it confronts trends that are dampening the growth rate of cell sales: longer lasting batteries and a lack of new products that need to be driven by batteries. However, multipacks from Eveready/Energizer, Duracell, Rayovac, Panasonic and Kodak help consumers keep batteries on hand and ready for incremental use.

Multipacks are popular with consumers because they perceive them to give value and convenience. Multipacks of all types of batteries are gaining sales as it proves to be the most popular packaging format.

The battery growth pace has settled since consumer electronics manufacturers haven't introduced any new battery gobbling devices lately.

One of the most successful merchandising approaches with batteries has been the placement of shrink-wrapped multipacks in high traffic areas. Front-end spinners, endcaps or checkout lane placements, in addition to secondary store locations, are all useful techniques to encourage impulse buys. Cross merchandising by placing batteries near the devices they drive has not caught on big with drug chains who may be fearful of theft.

Books and Magazines

Drug chains are hoping to turn the page after a year of flat sales in books and magazines.

It seems that people pinching their wallets in the recession were able to resist high-impulse reading purchases. But people love to read and once pocket money is freer this category will pick up.

Drug chains remain committed to offering a wide selection of magazines and books because the category offers decent returns when sales are on the upswing. Overall sales for the category are expected to improve in 1992 as the country emerges from the recession and consumer spending increases. The challenge for drug chains will be to protect their market shares as mass merchandisers and deep discounters become more aggressive in their commitment to readers.

Deep discounter Phar-Mor, for example, has an extensive reading section with titles in both hard and soft cover. Combo stores that have added full-scale reading centers include Kroger Co. and Randall's Food and Drug. Both stores have reading centers that carry hardcover bestsellers and occasional in-store promotions.

Some drug chains, such as Rite Aid and Bill's Drugs, have countered by eliminating the wholesaler/distributor support network that has traditionally been relied upon. The two chains have their own personnel handle selection, remerchandising and upkeep. Most chains, however, still rely on the expertise and supply capabilities of their distributors.

Hosiery

Convenience is the big draw for drug chains when it comes to hosiery sales.

Typically, a consumer in need of a pair of pantyhose on the way to work or some type of social function is in a hurry. Drug chains have been able to attract those consumers because they allow customers to be on their way quickly. Drug chains who hope to be successful with pantyhose sales in the future are expected to capitalize further on their convenience by stocking new styles in an array of popular colors. Then, shoppers whose initial visit to a store is motivated by convenience may be transformed to regular customers because of the selection of styles.

A challenge for drug chains will be to remain price competitive and maintain product diversity. Space constraints make it impossible for drug chains to carry the inventory available at mass merchandisers or deep discounters. But good inventory control and merchandising a variety of styles at a front-end location can help eliminate snags in hosiery sales.

Generating return visits will also require drug chains to offer reasonable prices. The buying power of mass merchandisers and the deep discounters philosophy of buying when "deals" are available make it difficult to match prices offered by those trade classes. Drug chains can capitalize on their convenience advantage as long as they are careful not to offend consumers with significant price differences. Consumers may be willing to overlook subtle price differences if they are outweighed

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PHAR-MOR
Thank You For Shopping PHAR-MOR

Phar-Mor uses supermarket-style checkstands as potent purveyors of high-margin GM items priced under $5.

1991 general merchandise highlights in chain drug stores

Chain drug general merchandise sales	$3,115,354,000
1991 percentage increase	4.6%
Percentage of total chain drug sales	6.4%
Typical gross margins	35%-45%
1991 industry profit yield from GM	$1,090,000,000-$1,400,000,000
Annual average department turns	5.3

Source: 1992 *Drug Store News* industry survey.

1991 General merchandise department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Toys	$ 876,385	4.0%	28.1%
Pantyhose/soft goods	329,447	6.0	10.6
Sunglasses	287,341	6.0	9.2
Batteries	275,698	4.9	8.8
Pet needs	242,255	7.9	7.8
Hardware	215,719	1.7	6.9
Automotive	206,907	1.9	6.6
Sporting Goods	176,712	4.0	5.7
Watches/bands	151,366	5.6	4.9
Home electronics	142,043	6.0	4.6
All others	211,482	4.3	6.8
Total	$3,115,354		

Source: 1992 *Drug Store News* industry survey.

Drug store share of magazine business

New England	15.2%
East North Central	13.2
Middle Atlantic	12.0
West South Central	12.0
South Atlantic	11.3
West North Central	11.2
East South Central	10.0
Pacific	9.1
Mountain	5.0

Source: Periodicals Institute.

GM gets boost from young businesses

Continued from page 101

by convenience.

The 1992 forecast again calls for clear and sunny skies in the rainwear category as sales of umbrellas and other rain-related merchandise are expected to flourish.

Rainwear no longer seasonal

Most drug chains have realized the wisdom of using rainwear to help their bottom line by carrying the category all year rather than as seasonal merchandise. In the future, new profitability opportunities will present themselves as drug chains will have an increasing variety of styles and colors to choose from as well as the availability of higher end products to capture the gift-giving market.

"Drug stores are our strongest growth area right now of the three distinct trade groups," said Rebecca Lamp, a sales manager with Totes. "The chain drug stores have really recognized the opportunity to use the rainwear category to consistently generate year-round sales for them."

Stocking umbrellas, ponchos and bonnets all year is key to ensuring that the category does well in the store, according to her.

"There are some peaks in the amount of rain that falls in the spring and fall, but an analysis of data shows that rainfall is pretty consistent year-round," she added.

Southern states tend to have the most rain while northern states have more rainy days but less accumulation.

Both scenarios translate into a winning combination for drug chains. Consumers increasingly are looking to drug stores for rainwear purchases because of the convenience factor. Many combo store chains still don't carry it as a year-round category. Virtually all discount stores carry do, but they do not offer consumers the ability to get in and out of the store quickly, an important consideration if it's raining.

Many drug chains have capitalized on the convenience factor by taking advantage of rolling racks that are provided by manufacturers. In rainy weather the racks can be positioned at the front of the store to generate impulse sales.

"If it's raining and you want an umbrella, and one is $6.99 at a discount store and one is $8.99 at a drug store, [the consumer is] going to want to stay dry, [so they] will make the purchase if they're already in the drug store," Lamp said.

Adding further support to the argument for carrying rainwear all year is the fact that many umbrellas are bought as gifts, some are bought to replace broken ones, while others are purchased as replacements for umbrellas left at home.

Reading glasses

Drug chains with vision are eying continued profits with sales of reading glasses. Industry sources look for reading glasses to remain a bright category characterized by product innovation and future growth.

One factor that has helped sales is the introduction of attractive new styles by manufacturers. Reading glasses have shed their stodgy, bookworm image and have also undergone merchandising changes.

Several manufacturers now provide retailers with high quality spinner and carousel displays that feature color graphics, photographs of models in real-life situations and the option to display the glasses on slide hooks or suspenders, which hold multiple SKUs.

Now more than ever, consumers have a wider variety of styles and special features to choose from as competition among manufacturers increases. Among those who have introduced upscale lines for fashion conscious buyers are Pennsylvania Optical, Opti-Ray, Magnivision, Lynn Roberts International and Cable Car Sunglasses.

Drug stores are a popular venue for the purchase of reading glasses, with many consumers making multiple purchases, industry sources report.

"Reading glasses are a good basic category for drug stores," said James Devine, president of the Chain Drug Marketing Association. "The nice thing about reading glasses is that people tend to buy more than one pair at a time."

Typically, drug chains will display reading glasses near the pharmacy, although placement near the books and magazines section merits further review.

Trading cards

Continued expansion of the consumer base for the increasingly diverse trading card category is expected to fuel continued sales growth of the collectibles. Industry sources say aggressive promotions by manufacturers, more sports teams and greater consumer interest should lead to between 10 and 15 percent growth in the category.

"It's a very, very hot category and it continues to grow," said Rob Kovalesky, a vp and partner with the sales and marketing consulting firm of Glendinning Associates. "Convenience stores still represent the majority of the business with about a 25 percent market share, and the mass merchandisers have about 18 percent. Drug stores account for about 15 percent of trading card sales."

Consumer demand for trading cards shows no sign of slowing, but it takes a commitment from the retailer to ensure healthy sales.

"The way the business is growing you really need to be in the business aggressively and not just dabble in it," Kovalesky said.

Many drug stores have recognized the profitability of trading cards and use special displays, endcaps or dedicated shelf space to spark interest.

Continued on page 106

Low-priced toys, more for boys at '92 Toy Fair

NEW YORK — Toy manufacturers were showing more toys priced under $20 and more toys for boys at the annual American International Toy Fair here in February. These trends emerged against the backdrop of a 1.4 percent total industry sales gain to $13.31 billion in 1991.

For example, Hasbro, Inc. will offer more toys for under $20 this year, a move the company says is an industrywide reaction to the economy; about 80 percent of its line will be at these low price points in 1992.

The company has reduced the price of My Little Pony, its 10-year-old line. "Sixty percent of purchases of the pony toys are impulse buys," said a Hasbro spokesperson. "The toys are now priced between $3 to $7, which should increase impulse purchases."

New lines introduced

Hasbro is also introducing several collectible series this year, all priced under $10. One intro is Secret Beauties, collectible dolls that spray cologne when squeezed.

Another introduction is a license of the popular cartoon character James Bond Jr. These action figures will sell for $5 to $6, with accessories at approximately $10.

Eco Warriors

Collections of World Wrestling, GI Joe and Dinosaurs are also expected to have strong sales at Hasbro. The company has introduced two socially conscious lines: Eco Warriors, which carry an environmental message, and Drug Elimination Force, which has an anti-drug-use message. Both lines retail under $10.

Turtles, et. al.

Although demand for Teenage Mutant Ninja Turtle-licensed items has declined, several manufacturers remain optimistic about their popularity.

Playmates Toys launched Mutations, action figures that evolve from cute pet turtles into turtles of the Teenage Mutant variety. Suggested retail for the action figures is $6.99.

The video market

Interest in the video business has waned, according to Harry Pearcem, chairman of Toy Manufacturers of America, Inc. While sales in the video segment were down 12.1 percent in 1991, he said that video "continues to generate new products with broad consumer appeal."

One video manufacturer, Konami, Inc., has lowered the prices on its hand-held game line in the hopes of broadening its market and increasing impulse sales. Konami's license line-up for 1992 includes Teenage Mutant Ninja Turtles, Star Trek, Garfield, major league baseball and football among others.

The old standbys

Traditional toys are also back on the block. The original 12-inch GI Joe is reentering the market this year.

Model kits have captured renewed interest. Tim Cawley, ceo of Revell-Monogram, a manufacturer of model kits, said kits with neon colors and metallic trims have had high-volume sales at drug stores. Rite Aid, Eckerd and Longs are now carrying the kits. "We have better volume in Longs than in any store except Toys R Us," said Cawley.

Fun Factory

Whoever feels drug stores are dull didn't ask this boy. He'll have more $20-and-under toys to choose from in '92, due to the recession.

GM gets fresh sales from young categories

Continued from page 103

"With trading cards, you really need to have them displayed at the front end of the store, and with the drug store chains today you have about one third that use front-end placement," Kovalesky said. "Where the business has been heading is for retailers to develop permanent trading card sections, and today more than half of the drug chains have dedicated sections.

"We're also seeing trading cards go from more of a seasonal business to a bonafide year-round category," he added.

A host of factors contribute to trading card's rosy future.

• The national sports leagues continue to add new teams, and team relocations give manufacturers opportunities to release new series of cards. Cards featuring current television shows, hit movies, cartoon characters and other themes are available and continue to attract buyers.

• The consumer base is changing and growing. Boys 10 to 14 years of age still account for a large majority of sales and will continue to grow, but retailers must now also cater to increasing numbers of young girls and women who have been attracted to the category by the introduction of non-sports trading cards.

• The manufacturers' marketing approach has changed. Market leaders Topps/Bowman and Fleer, along with Upper Deck, Impel, ProSet, Donruss/Leaf, Pacific, Score and Kayo all produce a high quality premium card. Competition among manufacturers is intense, with many spending heavily on advertising and promotions and supporting their products with in-store marketing materials.

With so many manufacturers producing a vast array of cards, one of the biggest challenges facing drug chains will be to weed out and carry those cards that are most sought after by consumers.

Light bulbs

Although mass merchandisers have somewhat eroded drug stores' market share of light bulbs and lighting supplies, the category remains a good profit center for chains that effectively promote sales.

High visibility merchandising to gain impulse buys and cross merchandising—such as night lights by infant formulas and three-way bulbs by reading glasses—have proven to be an effective formula for some retailers. Others have chosen to trigger high-margin sales with less price-sensitive specialty bulb types or to sell products consumers will pay the most for per store visit.

Many retailers are getting help from manufacturers who have hopped on the bandwagon of environmental preservation. GTE-Sylvania, Philips and General Electric have all introduced lines of energy-efficient bulbs intended to appeal to conservation-minded consumers.

Manufacturer studies have shown that a large percentage of shoppers are interested in buying—and may be somewhat willing to pay more for—products that positively impact the environment. The higher priced, environmentally sensitive lighting products offer greater profit margins for drug chains, but the still low level of consumer awareness about how lower wattage or more energy-efficient bulbs help the environment is hampering sales.

Consumers need to be educated that the new bulb lines help reduce energy consumption and thereby help reduce dangerous chemical byproducts that may be generated by power plants.

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Chains loathe to leave tobacco behind despite health concerns

Marlboro
DURACELL

Smokers are buying more single packs since they have less pocket money, a trend that is lifting overall category margins.

For a chain drug store merchandise category in steady decline and under constant assault, tobacco retains enormous clout. Many drug merchants are loathe to promote a product linked to a slew of health concerns and social constraints, but most of them are just as loathe to show tobacco the door.

It isn't hard to fathom why. Even with annual unit sales declines of more than 2 percent a year, cigarettes still generate rivers of cash flow and steady, predictable profits. Equally important, staying in the tobacco business also helps drug chains keep smokers as customers.

Indeed, tobacco sales advanced 4.9 percent to $2.77 billion at drug chains in 1991.

Giving ground

Even so, drug chains have given up ground steadily to other trade classes in tobacco sales over the past decade. The chief culprit is convenience stores, whose market share in cigarettes climbed from 18 percent to 22 percent between 1985 and 1990, according to Brown & Williamson Tobacco Co. research. In the same period, drug stores saw market share drop to 7 percent from 9 percent, and supermarkets also lost ground, dropping 2 percentage points, to 28 percent.

"The big problem with our class of trade is the convenience stores," said Rick Keltsch, merchandise manager for Ft. Wayne, Ind.-based Keltsch Bros., a 20-unit drug chain. "They've taken a lot of the one-pack business away."

"It's the convenience aspect," agreed Robbie Ashe, a spokesperson for Brown & Williamson. "People with no time like being able to run in and run out quickly."

Drug chains still reap huge revenues from cigarettes. Indeed, while unit sales are dropping more than 2 percent a year, price increases, tax hikes and other factors continue to push cigarette revenues steadily higher in the United States. Americans spent $43.8 billion for tobacco products in 1990—the last year for which figures are available—compared with $40.9 billion in 1989, according to the Tobacco Institute. Of that total, cigarettes accounted for $41.6 billion in 1990 vs. $38.8 billion the previous year, or 95 percent of the total.

Like other retailers, drug chains are hard-pressed to walk away from that kind of revenue stream—despite their reservations about what tobacco products may do to their health care image.

"It's kind of like walking a tightrope now," said Mark Tow, merchandise manager for Hook Drugs. "(Tobacco) is really something we try to keep a low profile on . . . but we do want to keep the customers who come in looking for it."

Merchandise manager Rick Keltsch of Keltsch Bros., a 20-store chain in Ft. Wayne, Ind., said, "We've actually had serious discussions about getting out of the category altogether."

"We're in the health care business," Keltsch added. Even Keltsch Bros., however, isn't ready to walk away from a potent customer draw that yields rapid turns and predictable—if small—gross margins. "Cigarettes aren't very profitable on a percentage basis, but the dollar sales are still huge," Keltsch said.

Added Peter Clarke, tobacco buyer for K&B in New Orleans, "The category is still profitable for us, and turns are very good," despite the fact that cigarette sales in K&B stores are "trending downward close to the industry average of about 2.4 percent."

Clarke estimated the category generates everyday margins of 10 to 15 percent, and said cigarettes "are definitely worth the space we give them."

Like many drug chains, however, K&B has swung away from self-service. "We tried that about two years ago, but there was some pilferage," he said. "When cartons carry such a high dollar amount, you can't afford to lose even one to pilferage."

Hook remains self-service, for the most part, but keeps tobacco products up high, out of the reach of children.

One emerging trend, according to Keltsch: smokers are buying fewer cartons as a sour economy takes a bite out of wallets.

1991 tobacco department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Cigarettes	$1,904,282	5.3%	68.8%
Cigars	389,505	2.8	14.1
Lighters/smoking accessories	259,153	5.2	9.4
Tobacco/tobacco products	184,874	3.8	6.7
Pipes	28,067	1.5	1.0
Total	$2,765,881		

Source: 1992 *Drug Store News* industry survey.

1991 tobacco department highlights in chain drug stores

Chain drug tobacco sales	$2,765,881,000
1991 percentage increase	4.9%
Percentage of total chain drug sales	5.7%
Typical gross margins	10%-20%
1991 industry profit yield from tobacco	$275,000,000-$550,000,000
Average annual department turns	15

Source: 1992 *Drug Store News* industry survey.

Tobacco company sales and market share
(Full-year comparisons)

	Units*		Market share	
Company	**1990**	**1991**	**1990**	**1991**
Philip Morris	220	221	42.3%	43.4%
R.J. Reynolds	154	142	29.6	27.8
Brown & Williamson	54	57	10.3	11.1
Lorillard	40	37	7.6	7.3
American Tobacco	35	36	6.8	7.0
Liggett	18	17	3.4	3.4
Totals	521	509	100.0%	100.0%

*Units in billions of cigarettes, rounded
Source: John C. Maxwell Jr., Wheat First Securities.

Buyers stick to basics in housewares as caution keeps inventories lean

If there's one all-embracing theme chain drug retailers are hewing to in the wide-ranging, $85 billion housewares category, it's "basic is better." By this time, most drug chains have abandoned any ideas they may once have had about selling upscale, high-ticket kitchen or personal care appliances, and are staying with the tried-and-true.

"In housewares, I think the buyers this year will be very conservative," noted Don Vanacek of Chain Drug Marketing Associates, the 75-member buying organization. "In most cases, the chains are sticking to the basics, and some chains are even cutting back a bit.

"It's basically because of the economy," Vanacek added. "When things get tight, chains cut back to basics in this category, like personal care items."

Housewares Show

That's particularly true in today's mean-spirited, halting economic recovery, which has yet to convince a lot of consumers that it's for real.

More than most categories, housewares sales are linked inextricably with economic conditions and consumer sentiment. That's why the thousands of buyers and vendors who attend the International Housewares Exposition in Chicago every January spend as much time reading and discussing economic tea leaves as they do talking about products and promotional calendars.

Six gondola runs of housewares reflect the category's importance as a basic appeal to family shoppers at Phar-Mor. Cautious buying by most drug chains limited exposure to any slowdown in the turn rate of high-ticket housewares.

The economic downturn certainly played a role in the relative dearth of new, breakthrough products at the Housewares Show this year, agreed Debbie Teschke, a spokesperson for the National Housewares Manufacturers Association. She acknowledged "there weren't a lot of new products" at the show, but added that manufacturers have responded well to the downscaled, more cautious economic climate with the line extensions, improvements and fashion colors that retailers and consumers are looking for. What's more, she said, show attendance held up well, with roughly 11,000 U.S. buyers and a record 3,200 international buyers in town for the event.

Cautious Buying

For drug chains, the recession wasn't nearly as tough on the housewares department as it could have been. The reason: most chains seem to have learned some tough lessons about cautious buying in the face of an uncertain economy, and most have already lessened their exposure to front-end competition in recent years with their refocus on pharmacy and HBA.

"Most retailers were prepared for the worst," said Gerald Simpson, vp-merchandising, buying and advertising for 12-store Drug-Sav Co. in Tyler, Texas.

"Overall housewares sales last year probably ended about flat, or were even up a couple of points," said Vanacek. "Most of our members got through the year in very good shape, with low inventories and a very conservative approach. When they got to the last quarter, they did better than expected, and sold through some items."

Bright Spots

What's more, the back-to-basics approach chains have adopted doesn't mean they've abandoned many of the key general merchandise categories that qualify as housewares.

Indeed, there have been several bright spots for the chain drug industry over the past several years, and last year was no exception.

Drug chains continue to do well with decorative home storage containers, kitchen storage/microwave items, low- and medium-priced hair dryers and curlers, lunch boxes, picture frames, paper products, humidifiers and dental cleaning systems. These products are custom-made for the drug store image, as are other items lumped into the housewares category like home blood pressure monitors and air filtration systems.

Home storage items have been particularly successful for PayLess, reported vp-merchandise Andy Striefel, while at Big V Pharmacies of Ontario, water filters have been hot the past year. Drug-Sav, meanwhile, has found a winner in the picture frame category in recent months.

"We turned the category over to Intercraft in three of our stores last year and put in complete sections and added three more stores this year. It has been very good for us," said Simpson. "In the original test store, we have also gone from 8 feet to a 12-foot section by adding 4 feet of Intercraft's premium-priced line."

In one housewares segment, environmental products like can-crushers and recycling bins, the jury is still out, some chains report. Standard Drug, for instance, has had only so-so results so far for recycling bins and newspaper bundlers.

1991 housewares department highlights in chain drug stores

Chain drug housewares sales	$2,550,794,000
1991 percentage increase	0.9%
Percentage of total chain drug sales	5.3%
Typical gross margins	35%-40%
1991 industry profit yield from housewares	$890,000,000-$1,020,000,000
Average annual department turns	2.7

Source: 1992 *Drug Store News* industry survey.

1991 housewares department productivity in chain drug stores

Category	1991 total sales (add 000)	1991 % increase	% of category sales
Plastic/rubber housewares	$ 562,269	1.8%	22.0%
Household supplies	302,776	0.8	11.9
Personal care	288,481	0.9	11.3
Small electrics	227,396	−0.5	8.9
Glass/dishware/cookware	202,454	−0.6	7.9
Paper products	206,456	1.8	8.1
House & kitchen gadgets	142,951	1.0	5.6
Lighting products	138,056	5.5	5.4
Picture frames/mirrors	90,735	2.5	3.6
Insecticides	69,467	−2.2	2.7
Plants/plant care	59,286	1.0	2.3
Furniture/outdoor furniture	56,446	−3.6	2.2
Bath/closet	49,504	7.6	1.9
Giftware	30,117	0.9	1.2
Vaporizers/humidifiers	29,010	4.4	1.1
Miscellaneous	95,388	−2.4	3.7
Total	2,550,794		100

Source: 1992 *Drug Store News* industry survey.

NIELSEN HIGHLIGHTS

Bath additives—liquid

Marketing highlights

This is the first in a series of monthly columns produced by Nielsen Marketing Research and focusing on retail and consumer product category trends.

This category generated all-outlet sales of $72.5 million during the 52 weeks ending March 16, 1991 (up 75 against 1990). Unit sales of 39.6 million were down 6 percent from last year. The average price reported by consumers was $1.83 per unit, an increase of 14 percent from 1990.

Household penetration declined by 0.7 point to 15.6 percent of the 94.7 million U.S. households. Each of the 14.8 million households purchasing the category during the year spent an average of $4.91. They purchased the category at a rate of 2.1 times, buying an average 1.3 units on each occasion.

Consumers reported using coupons with 8 percent of their purchases (unchanged from last year), while 20 percent of the units were bought on some type of retailer promotion (up 1 point).

Channel development

Supermarkets led channel performance with 42 percent of annual unit sales. Almost 7 percent of U.S. households (45 percent of category buyers) purchased an average of 2.5 units each through this channel last year. Other food stores showed the greatest increase in purchase rate, growing to 2.4 units per buying household. This channel accounts for 4 percent of total unit sales.

Non-food outlets account for 54 percent of the category's purchased unit volume. Net household penetration is 105 for non-food channels, or about 65 percent of category buyers used the outlet for at least one purchase.

Trade channels — share of all outlet unit sales

Supermarkets 42% (unit/buyer = 2.5, penetration = 7% of hhlds)

Mass merchandiser 33% (unit/buyer = 2.1, penetration = 7% of hhlds)

Drug stores 18% (unit/buyer = 1.9, penetration = 4% of hhlds)

Convenience stores <1% (unit/buyer = 1.1, penetration = <1% of hhlds)

Warehouse club <1% (unit/buyer = 1.1, penetration = <1% of hhlds)

Other food 4% (unit/buyer = 2.4, penetration = 1% of hhlds)

Other non-food 3% (unit/buyer = 2.1, penetration = 1% of hhlds)

(channel development based on 4,588 actual 1991 purchase transactions)

Consumer characteristics

The lifestage group with the highest purchase index is "new families." They represent 8 percent of total U.S. households and account for 16 percent of unit sales (index = 199). Household penetration for this group is 33 percent, average price paid is $1.78 per unit. The "west central" geographic area (16 percent of total U.S. households) has the highest purchase index with 20 percent of unit volume (index. = 122).

Purchase dynamics	1990	1991	Change
Household penetration	16.3%	15.6%	−0.7 pts
Purchase occasions (annual)	2.1%	2.1%	1.2%
Units per purchase	1.3%	1.3%	−3.8%
Dollars per purchase	$2.13	$2.33	9.4%
One-time buyers	49%	49%	0 pts
Male primary purchase	15%	17%	2 pts

1991 buyer characteristics	% hhlds	Penetration	% buyers	% volume
Households with no children	65%	8%	54%	58%
Households with children <13	28	14	39	34
Households with any teenagers	14	11	16	16
White households	86	10	83	81
Black households	11	13	15	16
Hispanic households	6	9	6	5
Metro (A and B counties)	72	10	75	78
Households with cable	59	11	62	62

Lifestage groups — share of all outlet unit sales

Young singles 2% (index = 36, price $1.81, penetration = 11%)

Young cpls—no chld 3% (index- = 51, price = $2.15, penetration = 15%)

New families 16% (index = 199, price = 41.78, penetration = 33%)

Maturing families 34% (index = 160, price = $1.72, penetration = 25%)

Established families 5% (index = 69, price =%1.72, penetration = 14%)

MidAge singles 4% (index = 53, price = $1.75, penetration = 9%)

MidAge cpls—No Chld 10% (index = 100, price $1.99, penetration = 13%)

Empty nester 21% (index = 90, price $1.80, penetration = 11%)

Older singles 6% (index = 48, price = $2.33, penetration = 8%)

Geographic region — share of all outlet unit sales

Northeast 20% (index = 88, price = $2.02, penetration =14%)

East central 16% (index = 117, price = $1.58, penetration = 16%)

West central 20% (index = 122, price = $1.75, penetration = 18%)

South 27% (index = 88, price = $1.76, penetration = 16%)

Pacific 18% (index = 101, price = $2.00, penetration = 16%)

(consumer characteristics based on 9,098 actual purchase transactions)

Source: Nielsen Marketing Research, NPD/Nielsen Inc. - Copyright 1992 A.C. Nielsen Company

NIELSEN HIGHLIGHTS

Bath oil-liquids

Marketing highlights

This category had all outlet sales of $11.0 million during the 52 weeks ending March 16, 1991 (down 32 percent against 1990.) Unit sales of 2.59 million were down 27 percent from last year. The average price reported by consumers was $4.23 per unit, a decrease of 6 percent from 1990.

Household penetration declined by 0.3 points to 1.5 percent of the 94.7 million U.S. households. Each of the 1.4 million households purchasing the category this year spent an average of $7.59. They purchased the category at a rate of 1.4 times during the year, buying on average, 1.3 units on each occasion.

Consumers reported using coupons with 9 percent of their purchases (up 1 point from last year) and that 16 percent of their units were bought on some type of retailer promotion (up 1 point).

Channel development

Drug Stores led channel performance with 34 percent of annual unit sales. Less than 1 percent of U.S. households (32 percent of category buyers) purchase an average of 2.0 units each through this channel last year. Other non-food stores showed the greatest increase in purchase rate, growing to 2.7 units per buying household. This channel accounts for 1 percent of total unit sales.

Non-food outlets account for 64 percent of the category's purchase unit volume. Net household penetration is 1 percent for non-food channels, or about 68 percent of category buyers used the outlet for at least one purchase.

Trade channels — share of all outlet unit sales

Drug store 34% (unit/buyer = 2.0, penetration = <1% of hhlds)

Mass merchandiser 29% (unit/buyer = 1.4, penetration = 1% of hhlds)

Supermarkets 28% (unit/buyer = 1.7, penetration = <1% of hhlds)

Other food 8% (unit/buyer = 2.9, penetration = <1% of hhlds)

Convenience stores 0% (unit/buyer = 0.0, penetration = 0% of hhlds)

Warehouse club 0% (unit/buyer = 0.0, penetration = 0% of hhlds)

Other non-food 1% (unit/buyer = 2.7, penetration = <1% of hhlds)

(consumer characteristics based on 658 actual purchase transactions)

Consumer characteristics

The lifestage group with the highest purchase index is "empty nester." They represent 22 percent of total U.S. households and account for 34 percent of unit sales (index = 148). Household penetration for this group is 2 percent, and average price paid is $3.69 per unit. The South (30 percent of total U.S. households) has the highest purchase index and accounts for 39 percent of unit volume (index = 128).

Purchase dynamics	1990	1991	Change
Household penetration	1.8%	1.5%	−0.3 pts
Purchase occasions (annual)	1.6	1.4	−13.7%
Units per purchase	1.4	1.3	−2.8%
Dollars per purchase	$6.15	$5.61	−8.8%
One-time buyers	60%	69%	9 pts
Male primary purchase	22%	22%	0 pts

1991 Buyer characteristics	% Hhlds	Penetration	% Buyers	% Volume
Households with no children	65%	1%	60%	65%
Households with children <13	28	2	32	27
Households with any teenagers	14	2	16	16
White households	86	1	84	86
Black households	11	2	15	14
Hispanic households	6	0	15	1
Metro (A and B counties)	72	1	67	72
Households with cable	59	2	61	67

Lifestage groups — share of all outlet unit sales

Young singles 1% (index = 19, price = $5.56, penetration = <1%)

Young cpls.—No Chld 5% (index = 102, price = $4.02, penetration = 3%)

New families 8% (index = 93, price = $4.13, penetration = 1%)

Maturing families 20% (index = 94, price = $4.21, penetration = 2%)

Established families 8% (index = 104, price = $4.83, penetration = 2%)

MidAge singles 6% (index = 78, price = $4.68, penetration = 1%)

MidAge cpls.—No Chld 14% (index = 141, price = $5.10, penetration = 3%)

Empty nesters 34% (index = 148, price = $3.69, penetration = 2%)

Older singles 5% (index = 40, price = $4.23, penetration = 1%)

Geographic region — share of all outlet unit sales

Northeast 18% (index = 82, price = $3.96, penetration = 1%)

East central 9% (index = 62, price = $4.57, penetration = 1%)

West central 15% (index = 91, price = $4.58, penetration = 2%)

South 39% (index = 128, price = $4.09, penetration = 2%)

Pacific 20% (index = 113, price = $4.36, penetration = 2%)

(warning: channel development on only 288 purchase transactions in 1991)

Source: Nielsen Marketing Research, NPD/Nielsen Inc. - Copyright 1992 A.C. Nielsen Company

Smith's puts heat on California market

SALT LAKE CITY — Smith's Food and Drug will keep the heat on in its bid to quickly build market share in California.

"The primary focus in 1992 will be on adding new stores in the California market," noted the company in its recently released annual report. "In 1992, we plan to open 14 to 16 new stores. Of those new stores, eight to 10 will be in Southern California."

Added chairman and ceo Jeffrey Smith and president and chief operating officer Richard Smith in a statement, "We carefully planned this entry after evaluating potential markets adjacent to our operating area. We believe our combination food and drug center format will be a success in this new market.

"Since more people live in Southern California than all of our other operating markets combined, it will be the major focus of our expansion plans for the next several years," they said.

The rest of Smith's growth this year will come in existing markets in Utah, Arizona and other western states, the report noted. Those stores will average 77,000 square feet and feature complete drug and food departments; many will also offer well-stocked video rental centers and photo centers.

Smith's pushed west to Southern California last year, opening nine of its 17 new combo stores for the year in markets between Los Angeles and San Diego. Arizona also got six new units.

The chain has become a regional power in food and drug retailing, with one of the industry's most respected and appealing combo formats. Smith's 109 stores are concentrated in Utah, but in recent years the chain has pushed increasingly into the surrounding states of Arizona, New Mexico, Nevada, Idaho, Wyoming and recently the Golden State. Last year, Smith's also opened its third distribution center near Phoenix to support its growing reach. That center supports all stores in the Southwest region and in California, the company stated.

Genovese has record quarter, fiscal year sales

MELVILLE, N.Y. — Genovese Drug Stores, Inc. announced sales and net income for its fourth quarter and fiscal year ended Jan. 31, 1992.

Sales for the fourth quarter increased by 2.7 percent to $116 million compared to $113 million a year ago. For the fiscal year, sales of $447 million were 3.5 percent over the $432 million of a year ago. The sales results for both the fourth quarter and fiscal year set company records.

Net income for the fourth quarter was $2.7 million, or $.36 per share, matching the quarterly earnings of a year ago. Net income for the year increased 20.8 percent to a record $6.7 million compared to $5.5 million a year ago. Net income per share was $.90 vs $.75 last year. Net income for the current year and fourth quarter included a charge of $615,000 or $.08 per common share, from the settlement of litigation with the State of New York.

Genovese is a chain of 97 drug stores with location in New York, New Jersey and Connecticut.

Vons to offer debentures

Arcadia, Calif. — The Vons Companies, Inc. will offer $100 million of senior subordinated debentures due 2002. Donaldson, Lufkin & Jenrette Securities Corp. and Merrill Lynch & Co. will underwrite the proposed offering.

Vons is the largest supermarket operator in Southern California, currently operating 338 stores under the names Vons, Vons Food & Drug, Pavilions, Tiangus and Williams Bros., and the Jerseymaid dairy and ice cream plant.

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Vol. 14, No. 8 Apr. 20, 1992

MARKET DIARY:

Largest Dollar Gainer	Carter-Wallace	$ 4.88
Largest Dollar Loser	Medicine Shoppe	$ − 4.50
Largest Percentage Gainer	Accuhealth Inc.	16.67%
Largest Percentage Loser	Taro-Vit Industries	−26.00%

Advances	19
Declines	40
Unchanged	3
New highs	3
New lows	1

	Close 3/24/92	Close 4/6/92	Net Change	Percent Change
Drug Store News Index	5011.63	4854.65	−156.99	−3.13
Dow Jones Industrial Average	3260.96	3275.49	14.53	0.45
Standard & Poor's 500-Stock Index	408.88	405.59	− 3.29	−0.80
N.Y.S.E. Composite	225.89	223.79	− 2.10	−0.93
Value Line Index	260.93	254.54	− 6.39	−2.45

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 3/24/92	Closing Price 4/6/92	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend		Annual	
								Rate	Yield	High	Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	4.50	5.25	0.75	16.67	28	0.00	0.00	6.88	3.47
OTC	Arbor Drugs	ARBR	21.00	21.75	0.75	3.57	23	0.12	0.55	25.25	15.50
OTC	Big B (H)	BIGB	16.13	15.00	−1.13	− 6.98	17	0.20	1.33	16.25	10.63
OTC	Drug Emporium	DEMP	8.38	8.13	−0.25	− 2.99	—	0.12	1.48	9.38	5.50
NYS	Fay's Inc.	FAY	10.75	9.63	−1.13	−10.47	17	0.20	2.08	15.75	8.25
ASE	Genovese Drug	GDX.A	12.25	10.38	−1.88	−15.31	11	0.24	2.31	14.75	9.13
NYS	Longs Drug Stores	LDG	35.63	34.00	−1.63	− 4.56	13	1.08	3.18	44.38	33.38
OTC	Medicine Shoppe	MSII	29.25	24.75	−4.50	−15.38	18	0.36	1.45	30.75	19.00
NYS	Perry Drug	PDS	11.13	9.50	−1.63	−14.61	14	0.00	0.00	11.63	5.88
NYS	Rite Aid Corp.	RAD	21.00	21.50	0.50	2.38	15	0.52	2.42	23.75	17.25
NYS	Walgreen Co.	WAG	35.63	35.88	0.25	0.70	21	0.52	1.45	39.75	28.63
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	19.13	20.63	1.50	7.84	15	0.40	1.94	26.19	16.00
OTC	Bindley Western Ind.	BIND	16.25	16.13	−0.13	− 0.77	10	0.04	0.25	20.75	13.50
OTC	Cardinal Distribution	CDIC	30.75	28.50	−2.25	− 7.32	23	0.08	0.28	38.75	22.50
OTC	Durr-Fillauer	DUFM	24.00	22.50	−1.50	− 6.25	16	0.28	1.24	34.75	17.50
NYS	FoxMeyer Corp.	FOX	14.50	14.00	−0.50	− 3.45	16	0.28	2.00	16.63	10.75
NYS	McKesson Corp.	MCK	33.75	32.75	−1.00	− 2.96	15	1.60	4.89	40.13	32.00
ASE	Moore Medical	MMD	5.88	6.38	0.50	8.51	34	0.00	0.00	9.25	3.00
NYS	Owens & Minor	OMI	17.88	18.50	0.63	3.50	20	0.20	1.08	24.25	12.16
Manufacturer's transactions											
NYS	Abbott Labs	ABT	62.00	60.50	−1.50	− 2.42	24	1.20	1.98	69.75	48.38
NYS	American Home Products	AHP	77.25	76.63	−0.63	− 0.81	18	2.60	3.39	86.25	57.00
ASE	Barr Laboratories	BRL	21.75	19.00	−2.75	−12.64	40	0.00	0.00	37.50	12.88
NYS	Baxter International	BAX	37.13	37.38	0.25	0.67	18	0.84	2.25	40.88	31.50
OTC	Block Drugs Co.	BLOCA	57.00	57.00	0.00	0.00	19	0.88	1.54	61.00	50.50
ASE	Bolar Pharmaceutical	BLR	11.75	10.25	−1.50	−12.77	—	0.00	0.00	14.50	3.00
NYS	Bristol-Myers Squibb	BMY	80.50	76.50	−4.00	− 4.97	19	2.76	3.61	90.13	73.50
NYS	Carter-Wallace	CAR	93.38	98.25	4.88	5.22	33	1.00	1.02	137.50	60.13
ASE	Columbia Labs	COB	7.00	7.38	0.38	5.36	—	0.00	0.00	10.38	4.75
ASE	Del Laboratories	DLI	21.25	22.13	0.88	4.12	17	0.28	1.27	24.38	15.38
ASE	Forest Labs	FRX	34.75	33.25	−1.50	− 4.32	31	0.00	0.00	43.63	28.63
ASE	Halsey Drug	HDG	8.38	6.38	−2.00	−23.88	25	0.00	0.00	9.75	3.38
NYS	ICN Pharmaceutical	ICN	15.00	14.25	−0.75	− 5.00	—	0.00	0.00	25.38	4.50
ASE	Lee Pharmaceutical	LPH	1.38	1.25	−0.13	− 9.09	—	0.00	0.00	2.13	0.75
ASE	Leiner P. Nutrition	PLI	14.63	14.63	0.00	0.00	17	0.00	0.00	14.88	10.25
NYS	Lilly Eli Co.	LLY	71.50	72.13	0.63	0.87	16	2.20	3.05	87.75	69.50
NYS	Marion Merrell Dow	MKC	34.88	33.13	−1.75	− 5.02	16	0.92	2.78	39.00	27.25
NYS	Merck Co.	MRK	150.00	149.38	−0.63	− 0.42	27	2.76	1.85	169.75	106.00
NYS	Mylan Labs	MYL	37.38	37.38	0.00	0.00	37	0.20	0.54	43.25	22.00
NYS	Novo-Nordisk	NVO	81.63	83.00	1.38	1.68	18	0.60	0.72	96.00	61.00
OTC	Nutramax Products	NMPC	11.88	11.25	−0.63	− 5.26	31	0.00	0.00	12.50	4.75
NYS	Pfizer Inc.	PFE	70.50	71.38	0.88	1.24	34	1.48	2.07	87.00	54.00
NYS	Pharmaceutical Resources	PRX	6.25	5.38	−0.88	−14.00	—	0.00	0.00	8.00	2.63
NYS	Rhone-Poulenc Rorer	RPR	56.75	57.25	0.50	0.88	24	0.56	0.98	69.38	39.00
NYS	Schering Plough	SGP	57.50	56.38	−1.13	− 1.96	19	1.32	2.34	68.00	47.25
NYS	Syntex Corp.	SYN	46.50	46.25	−0.25	− 0.54	23	0.92	1.99	56.00	36.75
OTC	Taro-Vit Industries	TAROF	12.50	9.25	−3.25	−26.00	77	0.00	0.00	12.75	3.25
OTC	Teva Pharmaceutical Ind.	TEVIY	23.63	25.38	1.75	7.41	26	0.20	0.79	28.38	11.75
NYS	Upjohn Co. (L)	UPJ	39.00	37.00	−2.00	− 5.13	13	1.36	3.68	49.25	36.50
NYS	Warner-Lambert	WLA	65.00	62.75	−2.25	− 3.46	60	2.04	3.25	80.38	62.13
OTC	Zenith Labs	ZENL	19.50	18.50	−1.00	− 5.13	50	0.00	0.00	24.25	7.00
Other retailer transactions											
NYS	Albertson's	ABS	43.50	43.88	0.38	0.86	23	0.64	1.46	51.38	32.75
NYS	American Stores	ASC	32.88	33.38	0.50	1.52	10	0.68	2.04	46.13	26.00
NYS	Giant Food	GFS.A	23.13	21.88	−1.25	− 5.41	15	0.64	2.93	31.00	20.63
NYS	Great Atlantic&Pacific Tea	GAP	32.13	33.25	1.13	3.50	18	0.80	2.41	55.75	25.00
NYS	Kmart (H)	KM	53.88	52.00	−1.88	− 3.48	13	1.84	3.54	55.00	38.13
NYS	Kroger	KR	18.00	16.88	−1.13	− 6.25	15	0.00	0.00	24.50	15.38
NYS	Melville Corp.	MES	49.38	47.88	−1.50	− 3.04	15	1.48	3.09	55.25	38.25
OTC	Fred Meyer (H)	MEYR	27.25	23.75	−3.50	−12.84	13	0.00	0.00	29.25	16.00
NYS	Penney, JC	JCP	65.13	64.75	−0.38	− 0.58	16	2.64	4.08	67.75	47.13
NYS	Safeway	SWY	16.25	15.63	−0.63	− 3.85	24	0.00	0.00	21.63	15.00
NYS	Smith's Food & Drug	SFD	38.38	38.00	−0.38	− 0.98	23	0.44	1.16	43.25	30.25
NYS	Wal-Mart	WMT	53.13	52.88	−0.25	− 0.47	38	0.20	0.38	59.88	39.88

Key: (H) = New annual high reached in the bi-weekly period. (L) = New annual low reached in the bi-weekly period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.

Source: Nordby International, Inc., Boulder, Colorado (303) 449-0326.

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for the PHARMACIST

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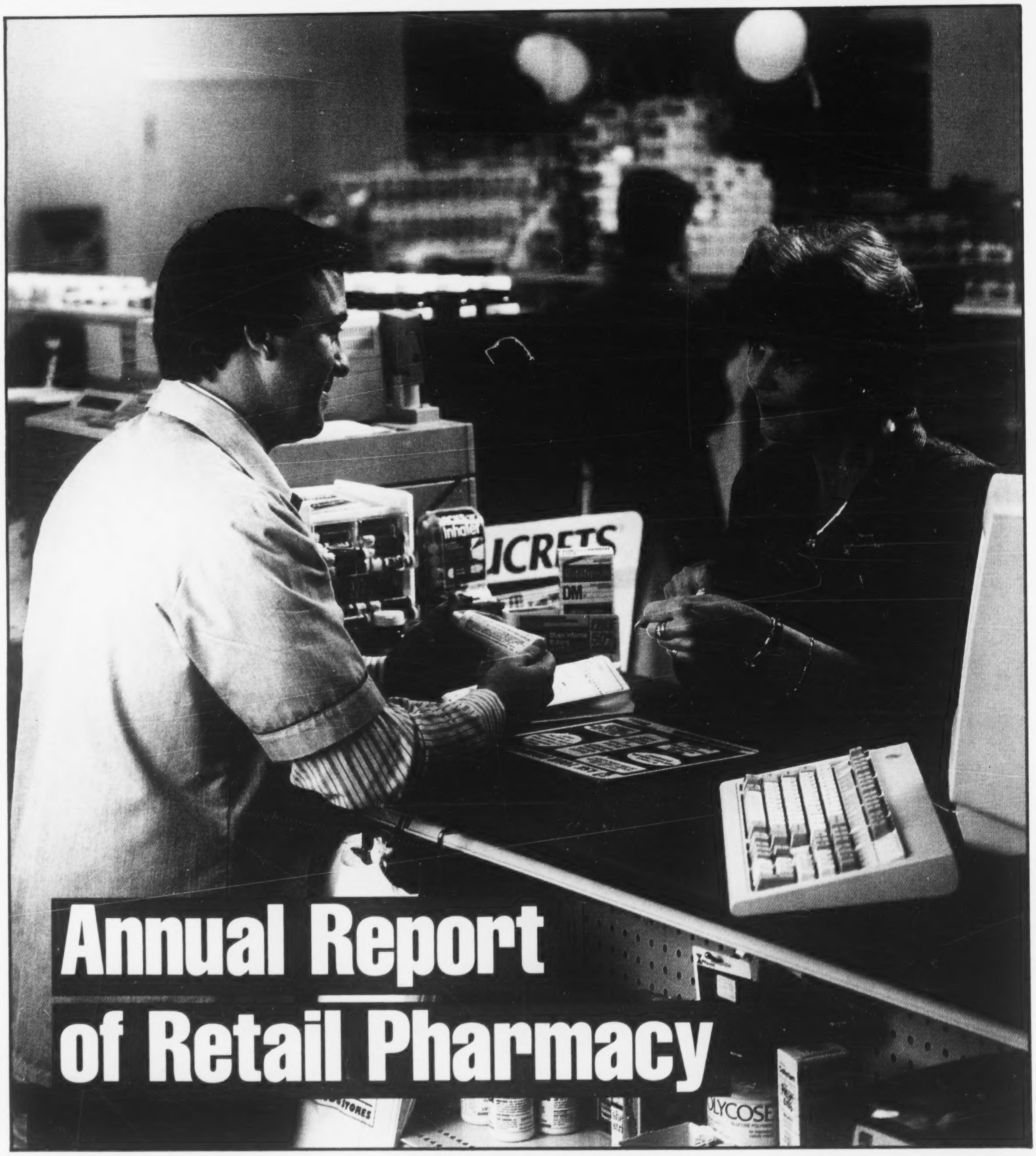

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ShopKo bites into pharmacy 63

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editor's note

Driving our future: an exciting trip ahead for pharmacy

Our Annual Report issue is always a good time to reflect on significant pharmacy happenings over the past year. Judging by those events reported in our cover story, we have long passed the crossroads and are careening headlong into the future. Although our final destination will be determined by what turns we take, the trip itself makes for an exciting ride.

This last year has put the spotlight on pharmacy, with the feds attempting to regulate pharmacy practice (HCFA's pending counseling and DUR regulations for OBRA '90, and the latest compounding restrictions); an election-year national health insurance initiative which cannot neglect pharmaceuticals; and third-party price constraints no one can live with.

Several issues threaten to cause the profession to veer off course—like the entry-level pharmacy degree debate, and disagreement over how to best counsel our patients.

While these have spawned new alliances between previously divergent groups, at the same time they have widened the chasm between others.

What is significant in pharmacy's drive to the future is that no one can afford to be "just along for the ride." As FDA Commissioner Kessler stated at the recent APhA annual conference, "Conditions are right for this profession to continue to take the lead." Collectively, we must take the driver's seat to ensure that we all arrive at the place where pharmacy wants to be. ■

Dianne M Tharp

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1991: Retail pharmacy in mid-life crisis

The realities of the 1990s hit home for community pharmacy last year as economic pressures, professional concerns and regulatory incursions combined to force many pharmacy practitioners to chart new directions.

It was a year in which independent pharmacists experienced rising concern over mail order dispensaries; a period when professional leaders grappled with the future of pharmacy education; and a time when chain pharmacy moved to distance itself from other segments on such critical issues as patient consultation requirements and the Pharm.D.

Continued on page 22

Mandated or not, pharmacy practice is changing from product dispensing to the provision of cognitive services. Pharmacies that do not provide the counseling and other value-added services our nation is coming to expect will go the way of the pill tile. Our annual report focuses on how rapidly pharmacy practice has changed in this last year alone, and the roller coaster ride ahead.

***Drug Store News For The Pharmacist* expresses thanks to Great American, Hicksville, N.Y., where this cover picture was taken.**
Photographer: Stan Fellerman
Pharmacist: John Fitzgerald
Model: Sue Porter Henderson

Execs view most significant Rx issues of '91

What do you think was the most significant event or issue facing pharmacy in 1991?

Ken Levy
Medi-Span

OBRA '90 is the most significant issue facing pharmacy in 1991, perhaps it is the most significant issue facing retail pharmacy in the decade. The impact is broad ranging, and will have an increased effect on pharmacy as the population continues to age and the number of Medicaid recipients continues to grow.

The impact may be most significant for independent pharmacists. In order to meet the requirements many may be forced to upgrade their hardware and software to enable them to meet the prospective drug utilization review requirements. At the regulation's onset there appears that there will be no compensation allotted to offset that cost.

Chains are better positioned to address this due to greater capital assets. Many work off mainframe or mini-computers and have capabilities to program and satisfy these requirements.

Retail pharmacy remains a focal point for both improving the quality of health care as well as providing effective cost containments, but the question is how pharmacy can manage to do it all. Problems come up in a strategy of trying to improve health care and reduce costs while keeping a viable bottom line.

Jack Robbins
Schering

I'd say it was a study funded by the PMA Foundation and conducted by Gallup, which was designed to see how consumers and health experts (medical school faculty members, physicians, financial analysts and section heads from NIH institutes) perceived the pharmaceutical industry.

The study found that 70 percent of consumers did not know that the industry supports R&D. Among industry experts, 72 percent believe and are aware that the industry is the source of research.

It also showed that consumers estimate that about 36 percent of all drug discoveries come from the industry; industry experts estimate that 52 percent of discoveries develop here. The reality is that 92 percent of all new chemical entities are filed within our industry.

The study also found that consumers believe 37 percent of the health care dollar is spent on pharmaceutical products; experts placed the estimate at 25 percent of the health care dollar. The reality is that only 6 percent is spent on medicine. The study really showed how little both consumers and experts know about our industry.

Saul Schneider
K&B

The greatest impact on pharmacy is the change of the role of the pharmacist brought about by OBRA regulations. It is now mandated as of January 1 that the pharmacist must consult Medicare patients. If pharmacists are going to consult with some patients, they will begin consulting with all of their customers.

At K&B, we are making a great effort to reach out to patients. Our pharmacists went through Searle's two-day Phocust program on how to counsel patients and what the proper language is for reaching them.

Like other chains, we are trying to make sure that the customer perceives that the pharmacist is available. We did a survey some time ago that showed people thought the pharmacist was too busy to answer questions, and we want to fight that perception. At K&B, we've added signs in the store that tell people our pharmacists are available to discuss their medications or over-the-counter medications.

The drawback to increased consulting is that we'll not be able to offer the kind of service that we have been in terms of having the prescription filled in a few minutes. Pharmacists will have to deal with new issues in terms of managing their time.

Alex Schamroth
Rite Aid

The OBRA regulations was the most pressing issue facing pharmacy in 1991 and has continuing impact in 1992. The spirit of the regulations is good. My concern is the potential for misinterpretation that may creep into this type of regulation.

The other area of concern is that the OBRA regulations leave the states wide open to determine on their own what those regulations mean and that could cause confusion and become difficult to manage.

On the other hand, the regulations present pharmacy with a tremendous opportunity. Once the value of pharmacy is enhanced and the potential of consultation is fully realized, it could mean a great deal to our profession. The question is: who is going to pay for the increased time? ■

Retail pharmacy is in mid-life crisis

Average weekly retail[1] prescription sales

Class of trade	1991 weekly (add 000)	1991 share	1990 weekly (add 000)	1990 share	% sales growth
Chain pharmacies[2]	$327,367	40.9%	$285,150	41.0%	14.8%
Independents	313,363	39.1	280,230	40.3	11.8
Food stores w/RX	81,123	10.1	67,157	9.7	20.8
Mass merchants w/RX	79,308	9.9	63,218	9.0	25.5

[1] Does not include mail order.
[2] Chains = 4 or more stores including deep discount drug store chains.
Source: IMS/DDD.

Continued from page 19

Significantly, however, the past year could also be characterized as a period when the federal government stepped up to the pharmacy counter with a prescription for direct regulation of pharmacy practice by Washington.

- HCFA began hammering out controversial Medicaid prescription Drug Utilization Review (DUR) rules to implement Congress' OBRA '90 mandate;
- FDA officials resurrected the concept of pharmacist-distributed patient package inserts;
- Federally-mandated patient counseling by pharmacists moved a step closer to reality; and
- Government regulators moved to set new restrictions on pharmacist drug compounding activities.

Third-party: carrot and stick

Although pharmacy reimbursement under the Medicaid drug program remained at inadequate levels in most states last year, thanks to Congress, the situation didn't get any worse in 1991.

The reason: provisions in the Omnibus Budget Reconciliation Act (OBRA '90) which slapped an ironclad moratorium on pharmacy reimbursement cutbacks by state Medicaid programs until 1994. Those provisions proved invaluable for many pharmacists last year as federal officials turned back efforts to slash drug reimbursement by financially-squeezed Medicaid administrators in Iowa, Tennessee and other states.

For other pharmacists, however, 1991 will be remembered as a year during which the mail order threat hit home as a parade of private third-party programs moved to reduce prescription benefit costs by entering into arrangements with mail drug dispensaries.

The past year also witnessed a renewed interest in National Health Insurance legislation and other proposals to reform the country's increasingly troubled health care system. The key issue for pharmacy: the form and substance of prescription drug coverage under these various proposals.

Continued on page 24

> *Provisions in OBRA '90. . .proved invaluable for many Rx'ers last year.*

Chain pharmacy's top 1991 prescription products

Highest dollar volume			Fastest growing		
Drug	**Mfgr.**	**Percentage change**	**Drug**	**Mfgr.**	**Percentage change**
1. Zantac	Glaxo, Roche	21.0	**1. Floxin**	Ortho	999.9
2. Mevacor	MSD	42.5	**2. Lodine**	Wyeth Ayerst	999.9
3. Ceclor	Lilly	29.7	**3. Prilosec**	MSD	919.0
4. Prozac	Dista	11.5	**4. Diflucan**	Roerig	125.5
5. Procardia XL	Pfizer	98.1	**5. Procardia XL**	Pfizer	98.1
6. Vasotec	MSD	17.0	**6. Duricef**	Pfizer	81.3
7. Tagamet	SmithKline Beecham	11.7	**7. Hismanal**	Janssen	76.4
8. Xanax	Upjohn	22.4	**8. Suprax**	Lederle	71.1
9. Premarin	Wyeth Ayerst	23.9	**9. Cardizem SR**	Marion Merrell Dow	58.7
10. Naprosyn	Syntex	14.2	**10. Beconase AQ**	Allen & Hanburys	56.7
11. Tenormin	ICI	10.7	**11. Nizoral**	Janssen	53.5
12. Calan SR	Searle	21.5	**12. Klonopin**	Roche	50.9
13. Capoten	Bristol-Myers Squibb	6.3	**13. Hytrin**	Abbott/BW	49.5
14. Seldane	Marion Merrell Dow	32.8	**14. Ceftin**	Allen & Hanburys	49.4
15. Augmentin	SmithKline Beecham	31.5	**15. Zestril**	Stuart	47.5

Top 15 products accounted for 25.8 percent of total sales.
Top 50 products accounted for 37.8 percent of total sales.
Top 100 products accounted for 59.9 percent of total sales.

Source: IMS/DDD.

Retail pharmacy is in mid-life crisis

Continued from page 22

With health care reform emerging as a major issue in this year's upcoming presidential elections, NARD has scheduled a series of regional meetings across the country to develop a consensus among pharmacists on the profession's involvement in the third-party programs being designed for the 21st century.

Education: cauldron bubbles

The debate over educational standards for pharmacists reached the boiling point during 1991 as groups representing various pharmacy segments squared off for a series of skirmishes over the Pharm.D. issue.

At the heart of the dispute: the American Council on Pharmaceutical Education's ongoing review of the profession's educational standards—a process that could force the nation's pharmacy schools to abandon existing five-year degree programs and establish a six-year Pharm.D. as the basic entry-level curriculum for all future pharmacists.

The drive for a universal Pharm.D. gained momentum over the past year as three major pharmacy groups—the American Pharmaceutical Association, the National Association of Retail Druggists and the American Society of Hospital Pharmacists—joined together to endorse the establishment of a new Doctor of Pharmacy degree as the profession's sole entry-level degree.

Under the APhA-NARD-ASHP proposal the nation's pharmacy schools would be encouraged to set up degree transfer and equivalence procedures so that pharmacy practitioners with B.S. degrees could receive Pharm.D. certification.

Significantly, however, the three national pharmacy groups neatly sidestepped one of the stickiest issues in the debate by declining to specify the length of the proposed new entry-level curriculum. According to APhA officials, it will be up to ACPE to determine whether the new entry-level degree will require more than the current five years of study.

The National Association of Chain Drug Stores, a group which has consistently opposed longer educational requirements for pharmacists, quickly attacked the all-Pharm.D. scheme as not "in the best interests of cost-effective and quality health care."

An NACDS-sponsored study released last year by research-

Continued on page 29

The national pharmacy groups neatly sidestepped one of the stickiest issues in the debate by declining to specify the length of the proposed entry-level curriculum.

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Pharmacy faces challenge of OBRA

Continued from page 24

ers at SRI International concluded that the most important future role for pharmacists will be as patient drug counselors—skills that pharmacy practitioners are most likely to sharpen on-the-job, not in the classroom studying for a doctoral degree.

When Pharm. D. advocates sought to dismiss the chain drug industry's objections to revised educational standards, NACDS responded by challenging both ACPE and representatives of the nation's pharmacy schools.

Instead of encouraging open "discussion of societal and professional needs" served by pharmacy degree programs, the current process in place to evaluate the Pharm. D. issue is "specifically designed to result in a predetermined outcome," NACDS charged.

Although over half of all pharmacy school graduates today enter practice in chain drug stores, the views of "chain pharmacy have been fundamentally dismissed as not being relevant to professional pharmacy practice and concerned only with economic interests," NACDS President Ron Ziegler maintained.

The past year was also a period during which pharmacy leaders maneuvered to prepare the profession for sweeping new Medicaid DUR requirements.

DUR: the future is now

Those rules—mandated by OBRA '90 to take effect nationwide next January 1—require state Medicaid programs to implement both prospective and retrospective drug use review systems. These dual DUR mechanisms must be engineered to ensure that drugs dispensed under the program are "appropriate," "medically necessary" and "not likely to result in adverse medical results."

For their part, pharmacists will be expected to check each Medicaid prescription for drug-to-drug interactions, therapeutic duplication, adverse effects and both over- and underutilization.

A key element of those new DUR requirements calls on pharmacists to offer to counsel all Medicaid patients concerning their medication. Although OBRA '90 requires that the actual counseling be done personally by the pharmacist, it's less clear how the offer to counsel must be made.

The rules made by OBRA '90 take effect next Jan. 1.

A task force organized by the National Association of Boards of Pharmacy and representing a number of major pharmacy organizations has recommended that the offer to counsel be made personally to the patient by the pharmacist. NACDS,

Continued on page 30

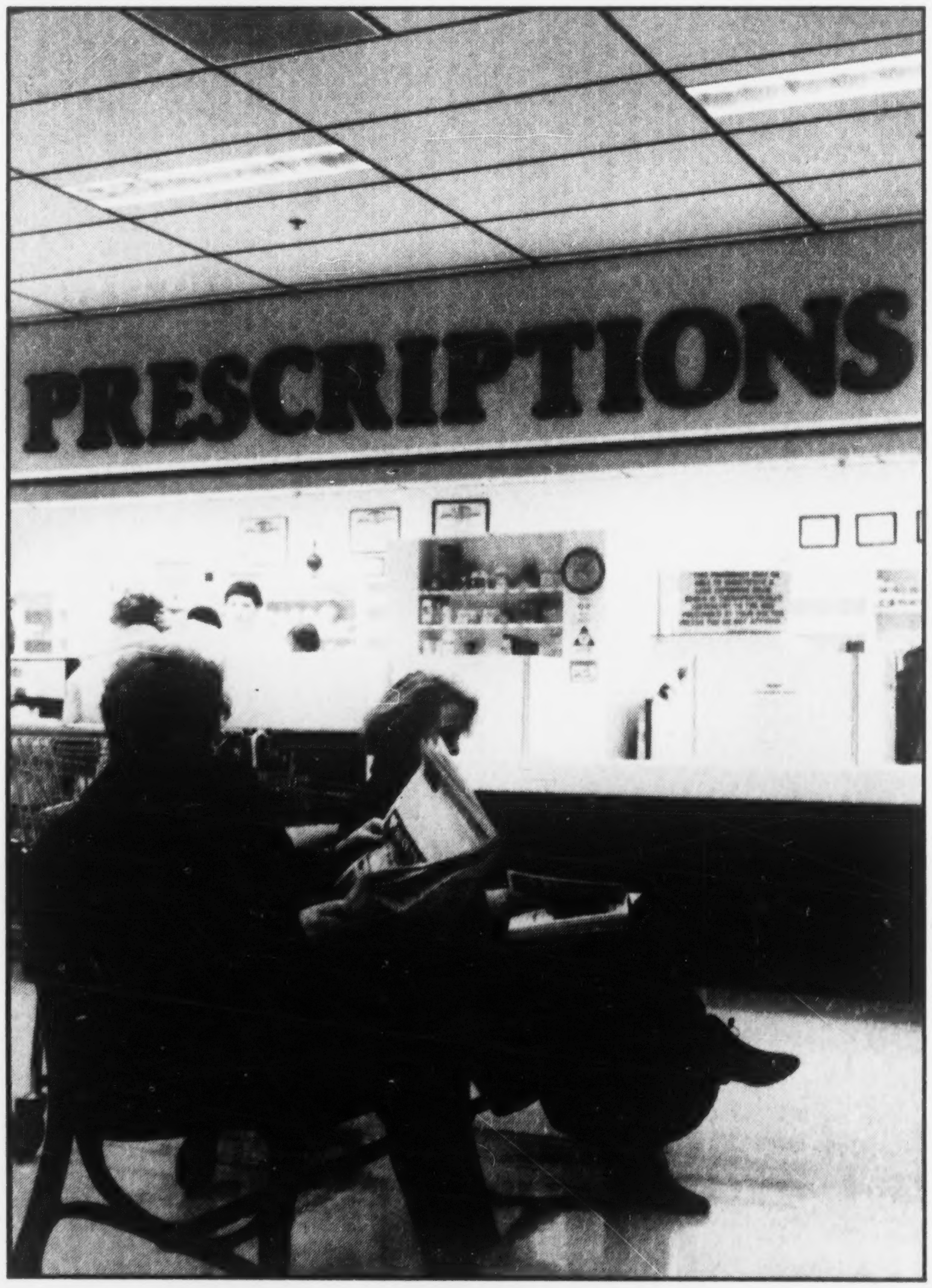
1992 retail pharmacy performance

(Sales in millions)

Retail class	No. hq.	No. Rx outlets	ACV $ vol.	Rx $ vol.	Rx % of ACV
Drug chains[1]	465	17,571	$ 48.4	$16.5	34.0%
2 & 3 store chains & HVIs[2]	—	5,631	9.1	5.3	58.2
Community pharmacies[3]	—	25,044	17.4	11.4	65.6
Total drug	465	48,246	$79.9	$33.2	41.5%
Food w/Rx	131	5,261	$100.5[4]	$4.4	4.4%
Mass w/Rx	8	3,808	54.6[5]	4.2	7.7

[1] 4 or more stores.
[2] High-volume independents with $1 or more average sales.
[3] Independents averaging less than $1 million.
[4] All commodity volume for food stores with pharmacies only.
[5] All commodity volume for mass merchandisers with pharmacies only.

Sources: Commerce Dept., IMS/DDD, Chain Store Guides.



Customers are given a pleasant and comfortable waiting area at Fred Meyer in Oregon.

U.S. Pharmaceutical Market 1991 National Prescription Audit

New prescriptions in millions

Year	Number of prescriptions substituted	Number written generically	Generic total	% of generics to all Rx
1986	75.3	106.0	181.3	23%
1986	93.1	110.9	204.0	25
1988	123.1	114.3	237.4	27
1989	147.8	118.5	266.3	30
1990	161.6	121.0	282.6	32
1991	183.4	127.8	311.2	33.7

Source: IMS America Ltd.

Pressure to counsel intensifies

Continued from page 29

one of the members of that task force, refused to endorse those recommendations and is pushing a more flexible approach.

Under the chain drug industry plan, pharmacists would be allowed to use a variety of techniques to make the offer to counsel, including printed literature, pharmacy department signs or stickers on prescription vials.

HCFA has developed regulations addressing the patient counseling question and other DUR issues, but at press-time, those rules were being delayed by the Bush Administration's moratorium on new regulatory initiatives.

Meanwhile, decisions on Medicaid patient counseling requirements are being hammered out on a state-by-state basis as legislatures rush to enact enabling procedures in time for the Jan. 1, 1993 federal DUR deadline.

Pharmacy practice

OBRA '90's new DUR and patient counseling requirements were just the opening shot in a broader incursion last year by federal officials into the pharmacy practice arena.

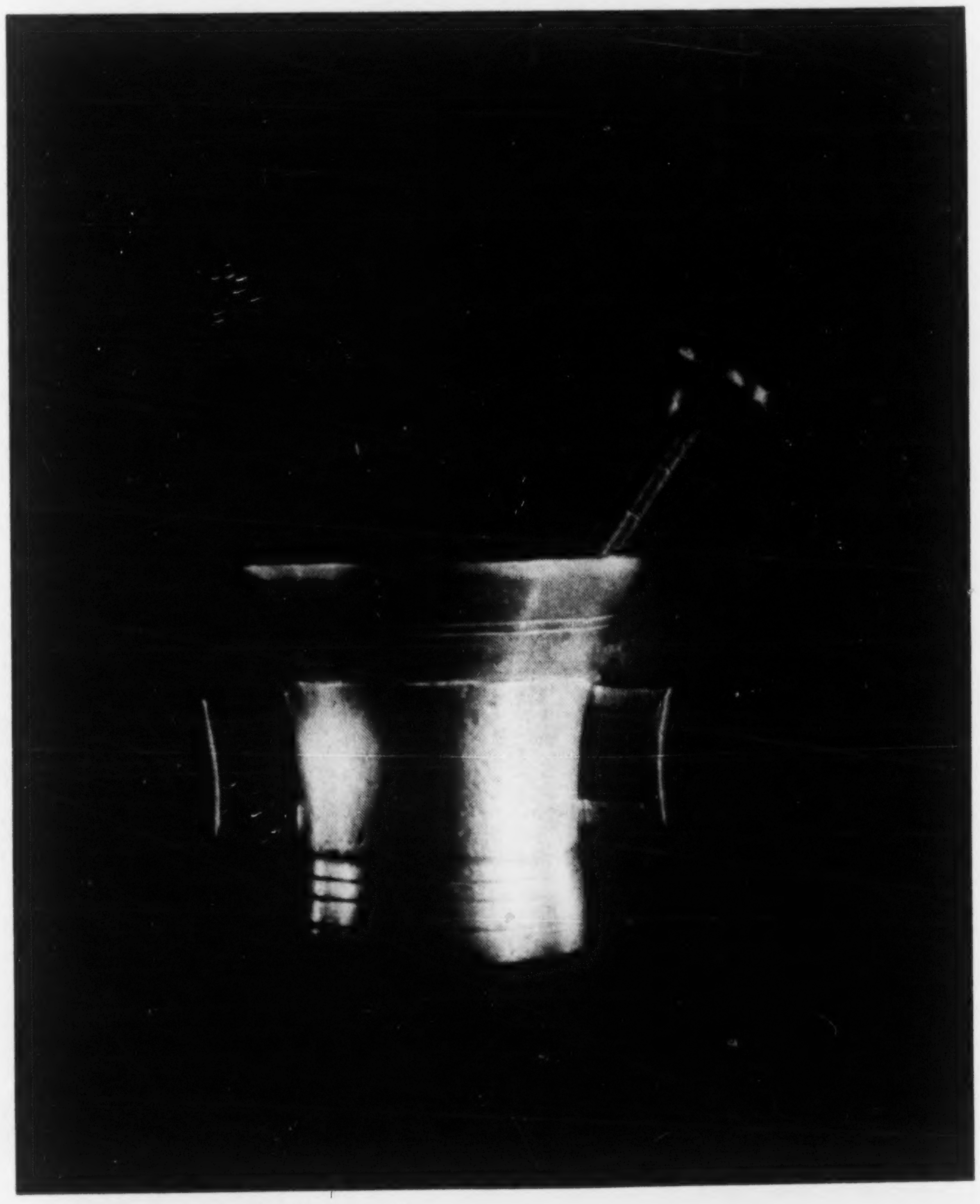
Much of that activity is centered at the FDA where Food and Drug Commissioner David Kessler has emerged as an outspoken advocate of new practice standards and responsibilities for pharmacists.

One constant theme from Kessler is the need for pharmacists to assume greater responsibility for improving medication compliance by closing "the communications gap that has long existed between the health care provider and the patient."

Continued on page 32

PRESCRIPTION SERVICE

Products that depend on pharmacist recommendations, such as vitamins, are often merchandised near the pharmacy department.



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New drugs 1991: Some good news and bad news

Continued from page 30

The new Medicaid patient consultation mandate is a step in that direction, but according to Kessler, pharmacists must do more than merely engage in verbal counseling. In addition, he says, pharmacists should generate PPIs on their pharmacy counter computers for distribution to patients.

Although the FDA has not yet revived controversial plans from the 1970s to mandate pharmacy distribution of PPIs, Kessler confirmed that federal regulators are "requesting" pharmaceutical manufacturers "to develop patient leaflets for drugs whose side effects are potentially so severe that the agency cannot allow them on the market without an approved information sheet."

FDA is also moving in on pharmacist compounding activities—an area in which federal regulators have long taken a hands-off policy.

A new compliance guide issued by the agency earlier this year seeks to crack down on what Kessler has described as the growing number of pharmacists who "are misusing their retail pharmacy license to manufacturer, distribute and promote unapproved new drugs" under the guise of compounding.

Under the new guides, compounding quantities of drugs far in excess of valid prescriptions and other activities suggesting a large-scale manufacturing arrangement will leave pharmacies open to FDA enforcement action.

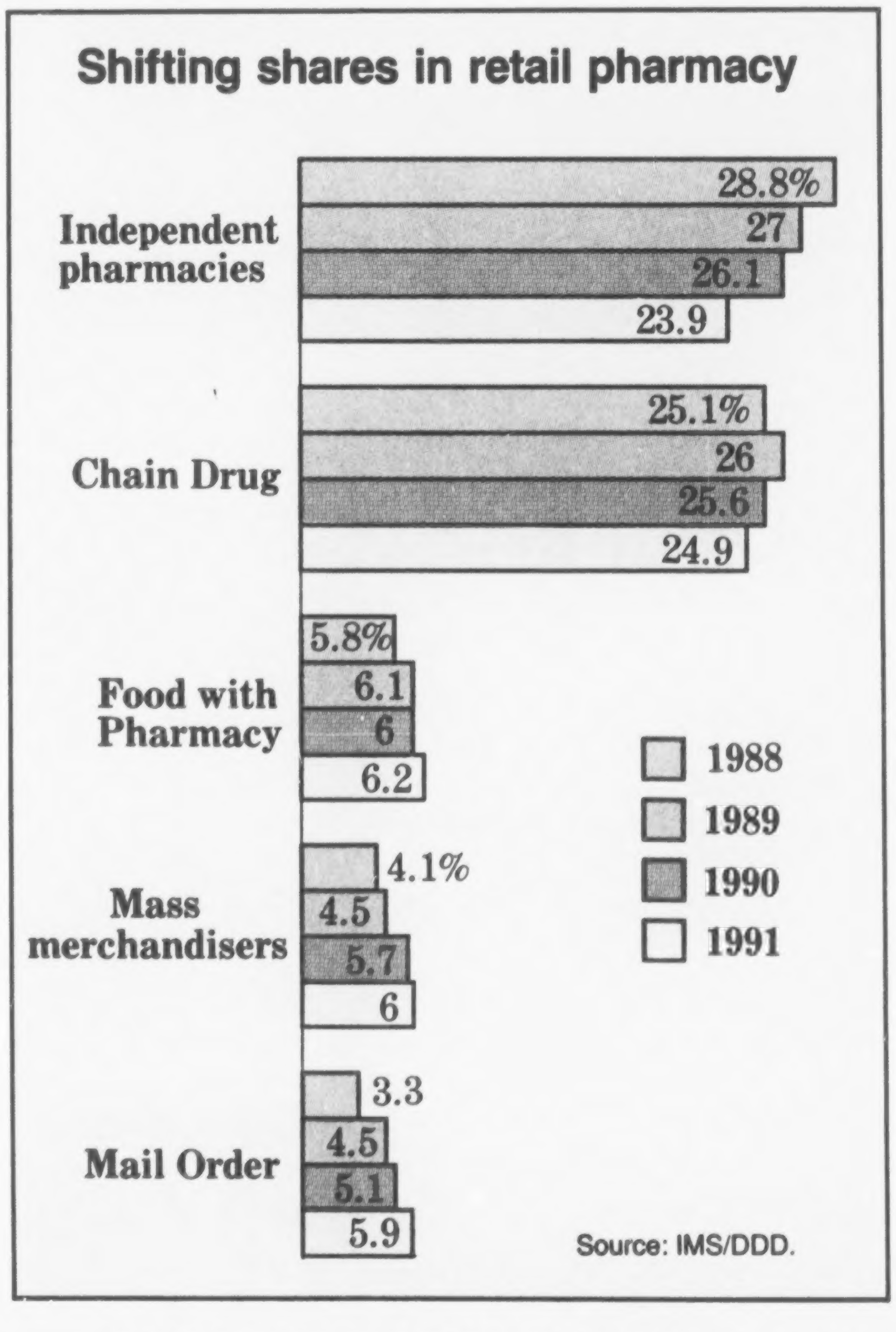
Rx drugs: the good and bad

The good news is that FDA cleared 30 totally new drugs last year—seven more than in 1990 and the highest number of new

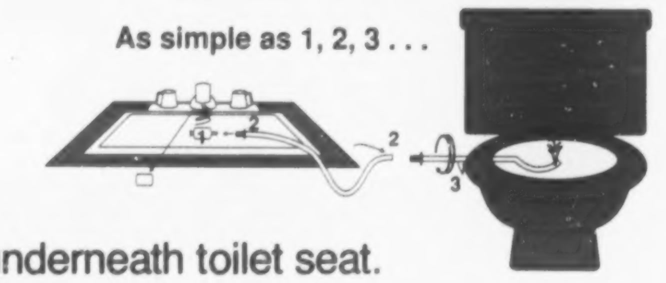
Continued on page 34

Pharmacy
Eckerd Brand Products

High-traffic pharmacy areas are an ideal place to merchandise impulse items.



Source: IMS/DDD.



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Third drug class issue resurfaces

Continued from page 32

molecular entities (NMEs) approved for marketing in the U.S. since 1985.

The new batch includes five new medicines for cancer or cancer-related conditions, two arthritis drugs, nine NMEs for the treatment of cardiovascular and cerebrovascular disorders and a pair of new AIDS drugs.

Additionally, FDA's 1991 approvals include new medicines offering "significant therapeutic gains" in the treatment of such diseases as precocious puberty, Gaucher's disease and chronic lymphocytic leukemia.

The bad news is that, despite years of internal maneuvering to reform the government's new drug approval process, it's taking longer for FDA to bring new drugs through the regulatory thicket and on to the market.

Average review time for each of the 30 NMEs approved last year rose to 30.3 months—up from 27.7 months in 1990.

Concerns over a so-called "drug lag" also resurfaced last year. Indeed, many of the NMEs cleared by FDA during 1990 are products that have been available to patients in Europe months, if not years earlier.

Pharmacy's power players

Chains	Number of pharmacies	Total stores
1. Rite Aid	2,438	2,438
2. Kmart	1,731	2,403
3. Eckerd	1,684	1,684
4. Walgreens	1,662	1,680
5. Wal-Mart	1,231	1,901
6. Revco	1,150	1,150
7. Hook-SupeRx Inc.	1,062	1,157
8. CVS (A)	1,015	1,250
9. Medicine Shoppe	870	870
10. American (B)	706	706
11. Thrifty	618	618
12. Thrift	531	531
13. Kroger	491	2,245
14. Safeway	415	1,115
15. Pay Less	408	408
16. Big B	284	305
17. Phar-Mor	271	271
18. Longs	265	265
19. Reliable	265	265
20. Albertson's	262	551
21. Fay's	254	256
22. Drug Emporium	229	229
23. Perry	207	221
24. SGC-Pathmark (C)	171	181
25. K&B	169	169

A. Includes Peoples
B. Includes Jewel Oscos with pharmacies
C. Includes free-standing drug stores
Source: *Drug Store News* 1992 survey; Chain Store Guides.

The past year also offered mixed results for the generic drug industry. On the downside, federal prosecutors continued to level charges of fraud and corruption against key generic producers and a number of indictments were handed down during 1991 as a result of the unfolding scandals.

On the other hand, there were indications that the bloodletting was beginning to end for the generic drug industry. A new group of regulators was put in charge of generic drugs at FDA, and approvals of Abbreviated New Drug Applications for new generics had begun to pick up.

OTCs: fresh interest

The past year witnessed a revival of the running debate over a proposed "third class of drugs" available without a prescription but only from a pharmacist.

Much of the interest centered on a system advocated by NARD to create a "transitional" group of pharmaceuticals which are being switched from prescription to non-prescription status. NARD's plan would temporarily limit the sale of such drugs to pharmacies but eventually allow them to be marketed OTC in all retail stores.

Although that proposal has drawn criticism from OTC drug manufacturers and various retail segments, several consumer groups have expressed support for the transitional class plan.

Meanwhile back at FDA, the agency's marathon 20-year old review of OTC drug safety and efficacy is continuing at geologic speed. Significantly, however, "monographs" for several key OTC categories were developed during 1991 and agency officials now claim they see light at the end of the tunnel.

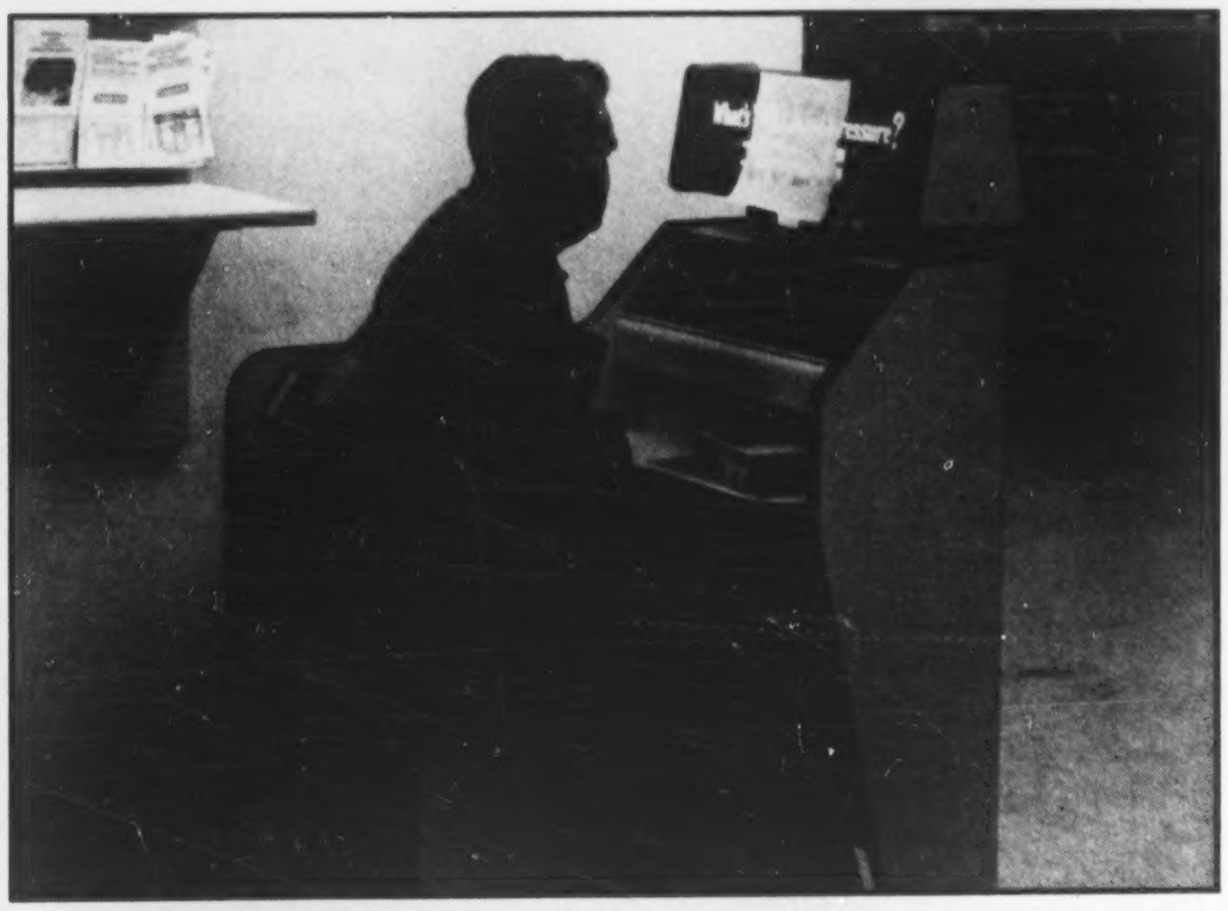
The outlook for FDA's program of shifting prescription drugs to non-prescription status is considerably less clear.

Although several dozen prime candidates for prescription-to-OTC switches have been identified, some observers believe that FDA officials are no longer giving top priority to transferring drugs to non-prescription status.

Adding to the uncertainty: political pressure from Congress that may make FDAers gun shy about dropping prescription requirements for many pharmaceuticals.

Investigators at the Congressional General Accounting Office stoked the coals earlier this year with a controversial report the House Energy and Commerce Committee which raises questions about the safety of many OTCs now on the market.

One possible outcome: legislation requiring FDA to establish more rigorous safety and effectiveness standards for OTCs. ■



Information kiosks and pamphlets are some of the tools chains offer to information-hungry customers who wish to be better informed.

Rx-to-OTC switches fueled '91 drug store sales

'91
OTC
Review

1991 OTC productivity in chain drug stores

Category	'91 sales (add 000)	'91 % increase	% of category
Cough/cold	$1,207,397	11.6%	16.9%
(Tabs/caps/lozenges)	739,976	12.5	10.4
(Liquids)	467,421	10.3	6.5
Analgesics	891,254	13.7	12.5
Dental care	728,633	7.2	10.2
Vitamins/nutritionals	623,323	2.2	8.7
Laxatives	559,861	5.6	7.8
Baby needs	552,409	1.4	7.3
Family planning	386,393	11.8	5.4
Feminine hygiene	376,047	19.3	5.3
Antacids	360,291	6.3	5.0
Eye care/lens care	351,949	1.6	4.9
First aid products	334,746	0.8	4.7
Foot care products	249,572	8.0	3.5
Diet aids	161,465	0.3	2.3
Anti-diarrheal/Anti-nausea	106,807	11.0	1.5
Home health care	94,207	1.9	1.3
Sleeping aids	43,895	11.6	0.6
Acne preparations	41,182	4.7	0.6
Wets & dries	36,444	8.5	0.5
Asthma inhalers/tabs/liq	18,364	5.1	0.3
Miscellaneous	51,432	2.1	0.7
TOTAL	$7,145,668		

Source: *Drug Store News* industry survey.

NEW YORK — An unusually severe flu season and the success of two prescription brands switched to over-the-counter status helped fuel drug store sales in the entire OTC drug market last year.

"It was a real good year," said a buyer for Pontiac, Mich.-based Perry Drug. "Our sales were up and it was a big cough/cold and flu season."

In the cough/cold, allergies and sinus category, the biggest part of the OTC drug market, retail drug store sales enjoyed double-digit growth, rising 16 percent in 1992 to $1.4 billion compared with 1991, according to Towne-Oller Associates Inc. Unit growth was also in the double digits, rising 12 percent to 232.3 million, according to Towne-Oller.

Analgesics, benefitting from a savvy marketing move to segment the market, also enjoyed double-digit sales growth last year. Retail drug sales sprinted 16 percent to $1 billion over 1991, while unit volume rose 12 percent to $232.2 million.

But the biggest jump by far occurred in the feminine hygiene category. Drug store sales, excluding paper products like tampons, skyrocketed 135 percent to $291.5 million over 1990, while unit volume leaped 18 percent to $54.5 million over the year-earlier period, according to Towne-Oller.

Analysts and buyers for chain drug stores credit the lion's share of that sales increase to two prescription brands that were introduced as OTC items for the first time—Gyne-Lotrimin (from Schering-Plough) and Monistat 7 (from Johnson & Johnson).

At some chains, the added traffic due to the OTC antifungal preparations helped spark an increase in the entire feminine hygiene category.

"They did expand the category," said Jim Culpepper, a buyer at PayLess Drug Stores. "Not only those items but existing items saw bigger sales because of the extra traffic. They brought more exposure to already existing items like douches, powders and sanitary napkins."

At PayLess, sales last year in the entire feminine hygiene category jumped 200 percent over 1990, according to Culpepper. And, the two antifungals outsold all other items in the category both in dollars and in units, he said.

Moreover, Culpepper said that the unit movement per month of the antifungals is already higher in 1992 compared to the same year-earlier period.

Hemant Shah, an independent drug industry analyst in Warren, N.J. who has long followed the industry, said that first-year sales of Gyne-Lotrimin and Monistat 7 as OTC drugs topped sales of ibuprofen products, like Advil and Nuprin, in their first year as OTCs.

"I think it is spectacular," said Shah, referring to the antifungals. He predicts that the feminine hygiene products have the potential to top $1 billion in sales.

Schering-Plough spokesman Doug Petkus said the Gyne-Lotrimin preparations for vaginal yeast infections enjoyed a terrific year. The product was first introduced to the trade in January 1991, getting an invaluable head start, he said, on Johnson & Johnson's Monistat 7, which was introduced two months later. "Being the first brand is important," he said.

According to Petkus, sales last year of Gyne-Lotrimin as an OTC drug quintupled the sales of the product when it was available only on prescription. Sales last year of the product soared to $115 million versus $22 million in 1990, he said.

Last year, Schering-Plough shelled out more than $25 million to advertise the product, an aggressive approach that Petkus credits with Gyne-Lotrimin's retail success. Asked if the company would support the product as actively this year, Petkus said "We are going to be as energetic this year as we were in 1991."

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Drug store sales fueled by Rx-to-OTC switches

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Indeed, one of the reasons that Schering-Plough must keep its eye on the market is the formidable strength of its competitor, Johnson & Johnson, a titan in the industry that knows a few things about OTC marketing.

The success of the once prescription-only antifungal preparations follows on the heels of other products that have been switched to the OTC market and enjoyed a huge jump in sales, analysts said. Examples include Advil and Nuprin, which now top $400 million in retail drug sales.

Pharmaceutical companies have long known that switching a product from prescription-to-OTC can mean a spectacular increase in sales. Indeed, of the best-selling OTC drugs launched since 1975, all but one are products that began as prescription drugs, according to the Nonprescription Drug Manufacturers Association.

The association predicts that over the next two to five years, companies will file over 50 petitions to the Food and Drug Administration to have drugs switched from prescription-to-OTC status.

Kline & Company, a market and research firm based in New Jersey, estimates that switches will more than double OTC drug sales from $11 billion today to $28 billion by the year 2010.

And FIND/SVP, a New York-based research and business intelligence company, predicts that the size of the market for prescription-to-OTC switches will total $3.6 to $3.9 billion by 1996 alone.

Those are some heady numbers. But consider the products that may be switched; they include some of the best-selling drugs in pharmaceutical history.

SmithKline Beecham, for example, filed last December an FDA petition to switch Tagamet to OTC status. Analysts expect several other marketers of anti-ulcer drugs to follow suit, including the Merck/Johnson & Johnson OTC partnership, which is expected to file to switch Merck's antiulcer drug Pepcid. Marion Merrell Dow is expected soon to file to switch Carafate, and Glaxo is also expected to throw its hat into the ring with Zantac.

Other categories expected to dramatically alter because of switches include allergy, sinus and cold; and analgesics, according to analysts and FIND/SVP.

In the analgesic category, for example, Syntex is expected to file an FDA petition to switch Naprosyn, the company's best-selling anti-arthritis product. The company has established a joint venture with Procter and Gamble to market nonprescription drugs, a strategy that mirrors the Merck/Johnson and Johnson partnership.

But the biggest seller, analysts agree, would be in the cold and

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Potential Rx-to-OTC switches

Drug	Therapeutic use	Manufacturers	OTC marketer
Seldane	Allergies, cold	Marion Merrell Dow	same
Hismanal	Allergies, cold	Johnson & Johnson	same
Claritin	Allergies, cold	Schering-Plough	same
Nasalcrom	Allergies	Fisons	same
Proventil	Allergies	Schering-Plough	same
Theo-Dur	Asthma	Schering-Plough	same
Intal	Asthma	Fisons	same
Naprosyn	Analgesic	Syntex	Procter & Gamble
Anaprox	Analgesic	Syntex	Procter & Gamble
Feldene	Analgesic	Pfizer	same
Dolobid	Analgesic	Merck	Merck/Johnson & Johnson
Indocin	Analgesic	Merck	Merck/Johnson & Johnson
Clinoril	Analgesic	Merck	Merck/Johnson & Johnson
Tagamet*	Antacid	SmithKline Beecham	same
Zantac	Antacid	Glaxo	Sandoz
Carafate	Antacid	Marion Merrell Dow	Marion Merrell Dow/ Schering-Plough
Pepcid	Antacid	Merck	Merck/Johnson & Johnson
Axid	Antacid	Eli Lilly	same
Nizoral	Antifungal	Johnson & Johnson	same
Spectazole	Antifungal	Johnson & Johnson	same
Nystatin	Antifungal	generic	—
Methenamine Mandelate	Antiinfective	generic	—
1% Hydro-cortisone**	Skin irritation	generic	same
Soma*	Muscle relaxant	Carter-Wallace	same
Flexeril	Muscle relaxant	Merck	Merck/Johnson & Johnson
Cholybar	Lipid lowering	Warner-Lambert	same
Nicorette	Smoking cessation	Marion Merrell Dow	same
Opticrom	Eye irritations	Fisons	same
Sulamyd	Eye irritations	Schering-Plough	same
Rogaine	Baldness	Upjohn	same

*Application for Rx-to-OTC switch pending with the FDA.

**Note: On Aug. 30, the U.S. FDA said drug manufacturers could market products containing up to 1% hydrocortisone.

Source: FIND/SVP.

Rx-to-OTC switches fueled '91 drug store sales

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allergy market, where Marion Merrell Dow is expected to push for a prescription-to-OTC switch for Seldane, a popular non-sedating antihistamine, now only available on prescription.

While switches can be a cash cow for drug companies, they are also a way for companies to lengthen the marketing exclusivity of a drug, said Ron Nordmann, a drug industry analyst at PaineWebber.

Nordmann said that Syntex, for example, will lose its patent on Naprosyn in December 1993. Under federal laws, if the company gets the regulatory OK to market an OTC version of the drug before the expiration, it will lengthen its patent protection for another three years.

"The point is that many companies are utilizing OTC switches as a way to lengthen marketing exclusivity," said Nordmann.

Despite the success of prescription-to-OTC switches for drug companies and drug store chains, independent pharmacists, consumer groups and members of Congress are becoming increasingly concerned about the safety of OTCs.

The FDA has recently been criticized for its lax inspection of the OTC market. A controversial General Accounting Office study released in March said the FDA does not have enough information about the safety on non-prescription medicines on the market. The GAO also said that FDA has too little authority over the market.

Prescriptions

Chains are merchandising products that depend on pharmacist input near the pharmacy department to encourage questions from confused customers.

Consumer groups and some independent pharmacists also charge that consumers are misusing once-prescription only medications.

"I have no objection to making these drugs available to the public, but I fear that many people use these medications inappropriately when they go over the counter," said Howard Levine, co-owner of Belmont Drug in West Babylon, N.Y.

He said that medications like hydrocortisone that are now available OTC are being used for cuts and bruises, which is contraindicated. Ditto for the feminine antifungals, which he fears are being used for bacterial infections—another inappropriate indication.

BRING PRESCRIPTIONS HERE
ABBOTT
LILLY
Scissors
Depend

Pharmacists' recommendations still carry plenty of weight when it comes to OTC products; experts say over 87 percent of recommendations result in a sale.

Levine believes that switches should first be classified as a third class of drugs, dispensed by a pharmacist only after a consultation. Consumers need time to be educated about the uses and abuses of powerful once prescription-only drugs, he said.

"Lets face it. If aspirin came out today, it would probably be classified as a prescription drug," said Levine. ■

> *'Many companies are utilizing OTC switches as a way to lengthen marketing exclusivity.'*
>
> **—Ron Nordmann**

Eye care remains flat as user base erodes

By James Frederick

With 1991 sales easily topping the $1 billion mark, the eye care category remains a powerful lure for pharmacy retailers and an indispensable need for some 25 million wearers of contact lenses. A steadily declining population of new lens wearers, however, has taken a toll on a once-booming category and flattened out growth.

What's hot, what's not

Solutions for cleaning, storing and disinfecting lenses were one of the hottest-growing HBA categories on drug and supermarket shelves a few short years ago, as baby boomers and advances in soft lens and gas-permeable lens technology exploded the number of users. But an aging user base now has both manufacturers and retailers predicting flat sales long-term.

"As we look out over the next two or three years, we see a flat market," admitted Bob Novander, director of lens care for Bausch & Lomb's Personal Products Division. "We're really caught in that population cycle, with a lot of people over 40 and a lot under the age of 18."

Steve Sisler, director of OTC merchandising for 65-store True Quality Pharmacies in McKinney, Texas, agrees the market is "big-time flat," at least near-term, as "fewer people wear contacts" and "sales of glasses are up tremendously.

Eye care category growth slows

(Predicted sales and unit growth rate, by year—in millions)

Category	1991 Sales	1991 Growth	1992 Sales	1992 Growth	1993 Sales	1993 Growth
Soft lens care	$ 702	(1.0%)	$ 691	(1.6%)	$ 681	(1.4%)
Rigid gas-permeable/ hard	110	10.0	117	6.4	124	6.0
General eye care	245	8.4	261	6.5	278	6.5
Total eye care	$1,057	2.1%	$1,069	1.1%	$1,083	1.3%

Source: Bausch & Lomb.

"Two years ago, lens solutions were blowing off the shelves," Sisler said. "Eye care at one time was a very, very strong profit entity. But profits have gone down. There's been a reduction in turns.

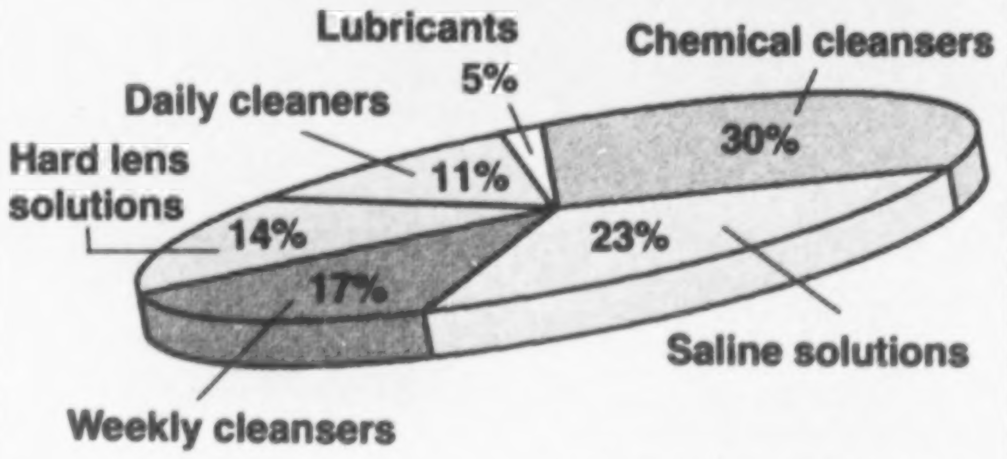
Sisler said that as turns have slowed down in lens solutions, True Quality has pared its offering to put turns back where they should be. "Our stores have cut back the size of the section, from 8 to 12 feet down to about 4 feet in the majority of stores.

Manufacturer aggressiveness needed

Sisler said some brands are hurting worse than others, and he urged those manufacturers to reassert themselves at both the professional and retail levels.

"They have to get back to detailing, to get that system into the hands of the opthalmologists, because that is where they are going to build the business," he said.

1991 lens care share of sales



Source: Bausch & Lomb.

"And, they have to get back to a promotional structure" for retailers. "With contract pricing, there is no incentive for retailers to buy in and promote the product."

Retailers have responded to the flattening out of the eye care market in a variety of ways, although they all acknowledge that it remains an indispensable adjunct to drug store merchandising.

Drug stores capture almost 50% sales

Indeed, drug stores still command nearly 50 percent of the eye care market in dollar sales, according to one manufacturer-sponsored study.

A buyer for Sav-on Drugs in Birmingham, Mich. said the chain has limited its lens care selection and supplier base and allows its store managers to buy and stock the section on a direct store delivery basis.

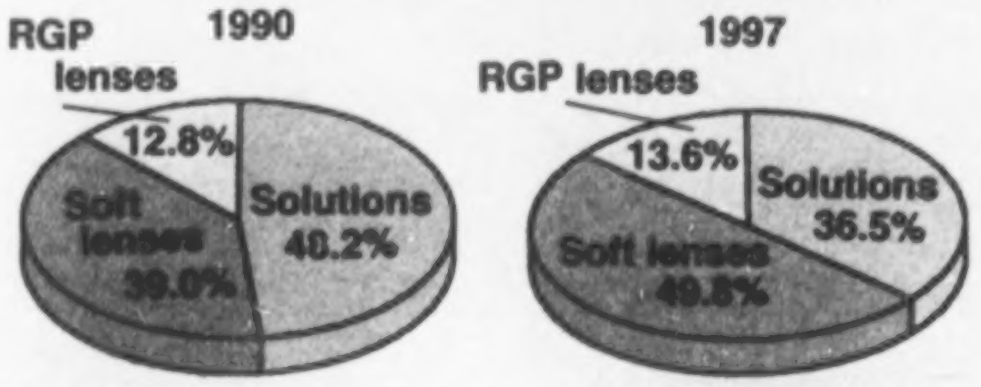
At the other end of the spectrum is Columbus-based Drug Emporium. The deep discount chain stocks some 220 eye care items and attempts to dominate the category and "influence the customer mind-set."

"By carrying the widest selection of eye-care products, all at deep-discount prices, the company is finding that when a customer thinks eye care, chances are increasing that she is at the same time thinking Drug Emporium," noted a company report last year.

Despite the recent softening of demand, Bausch & Lomb's Novander predicts another period of strong growth several years hence, when the younger generation enters the lens market. And he said the lens-care industry—dominated by Bausch & Lomb, Allergan, Alcon, Ciba Vision and a handful of other suppliers—would continue to come to market with new innovations. ■

Total contact lens and solution market:

Percent of revenues by type of product (U.S.)



Source MIRC.

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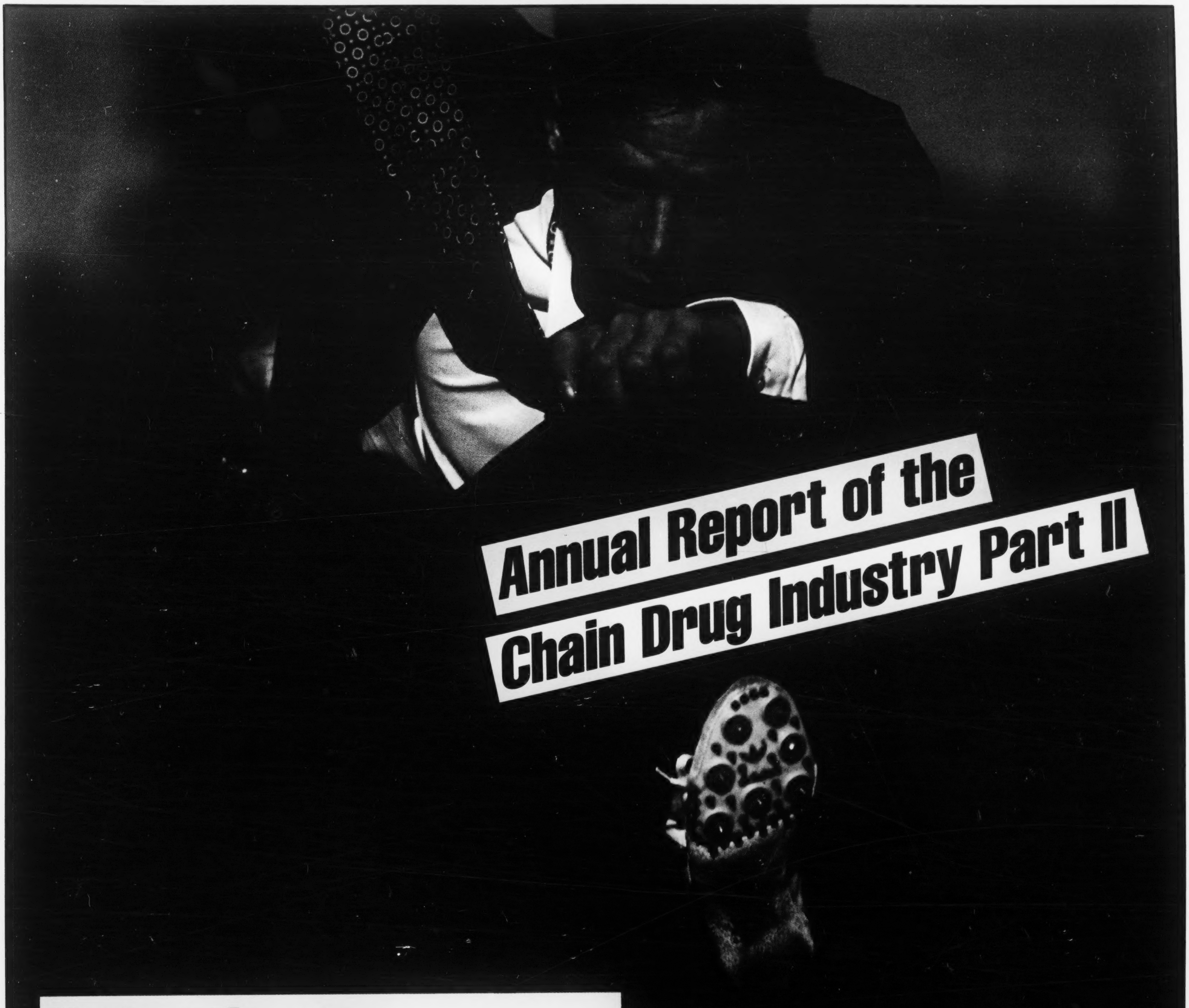

Annual Report of the Chain Drug Industry Part II

Under the gun, drug chains run harder

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NEWS IN BRIEF

Albertsons expands Fort Worth DC

FORT WORTH, Texas — Albertsons has begun to expand its distribution center here to 1.1 million square feet from 731,000 square feet to support its growing presence in the Southwest and Midwest. The expansion will support Albertsons stores in Texas, Louisiana, Kansas, Nebraska and Oklahoma.

With the Jewel Osco deal concluded, the chain operates 638 supermarkets and combos in 19 states.

M&M, Hershey weigh in with rebates

NEW YORK — Another sign of price pressures in the market: M&M/Mars unveiled a wrapper rebate program offering consumers 5 cents for each single bar and king size wrapper in the company's entire line. It has also lowered its wholesale price on bagged family packs by an average of 9.4 percent, and it plans to run "buy one get one free" FSI promotions in May and July.

Hershey weighed in with its own rebate offer which allows consumers to receive unlimited 5-cent refunds for any 1-ounce or larger bar, if they send in a minimum of 20 wrappers. Consumers can donate refunds to the Children's Miracle Network.

Arbor names cosmetics head

TROY, Mich. — Arbor Drugs has promoted David Van Howe to director-purchasing for cosmetics, fragrances and jewelry. Van Howe will report to vp-purchasing Dennis Wozniak and will work directly with cosmetic supervisors in store presentation.

Boutrous wins Ad Pro of Year in Iowa

WEST DES MOINES, Iowa — Victor Boutrous, director of marketing for Medicap Pharmacies, Inc., was named the 1992 Ad Pro of the Year by the Advertising Professionals of Des Moines. Boutrous recently assembled a creative team and helped to secure over $156,000 in pro bono media commitments for the "Iowa Needs a Cleaner Planet" campaign.

Treece: Cancer Society honor

MEMPHIS — Jerry Treece, president of Super D Drugs, has been selected as the American Cancer Society's volunteer of the year for the Memphis/Shelby County area. Treece serves as president of the chapter.

He will be roasted locally on May 17 by a panel that includes NACDS chairman Ron Ziegler, former Peoples Drug Stores president David Eisenberg, Walgreens district manager Jud Romans and Dick Gurley, dean of pharmacy at Univ. of Tennessee.

Robinson to help lead Interfaith group

DETROIT — Perry chairman and ceo Jack Robinson has been elected Jewish co-chair of the Greater Detroit Interfaith Round Table, a local chapter of the National Conference of Christians and Jews.

The Round Table also includes co-chairmen for the Muslim, Catholic and Protestant faiths, each of whom rotate into the presidency of the organization.

NACDS' Peterson joins Whitehall

NEW YORK — Ted Peterson, formerly senior vp of trade relations at NACDS, has joined Whitehall Laboratories as assistant vp and director of national accounts.

Whitehall also named David Swenson as director of consumer and trade promotions. Robert Guest has been named assistant vp and director of field sales from assistant vp and director of national accounts.

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Bob Martini named chairman, acquires Bergen board control

By Allene Symons

ORANGE, Calif. — Robert E. Martini was named chairman and ceo, and five other senior officers were given expanded roles in a recent Bergen Brunswig Corp. management realignment.

Martini served as president and ceo until he was named to succeed former chairman Emil P. Martini Jr., who died on March 16. Robert Martini now holds almost 100 percent of the Class B or voting stock, which gives Martini control over election of board members.

In another appointment, Dwight A. Steffensen, former executive vp and chief operations officer, was named president and chief operations officer. Steffensen joined Bergen Brunswig in 1985 when Synergex was merged with BBC.

Four executive vps were also designated with new functional responsibilities. Neil F. Dimick was named executive vp and cfo; Phillip R. Engle, executive vp and president/drug operations; Milan A. Sawdei, executive vp, chief legal officer and assistant secretary; and Denny W. Steele, executive vp, chief information officer.

The board of directors also authorized a buyback of around 1.4 million shares (of 37.5 million shares outstanding) of Class A common stock from the Martini estate. When made final around the end of April, the move will reduce the number of outstanding shares and increase the value per share, notes Bergen's vice president of corporate affairs, John T. Fay.

Of the outstanding shares of Class B or voting stock, Robert and Emil Martini each held 50 percent of 100,000 shares, excluding the holdings of one small shareholder. Robert Martini's voting control will be effective until as late as February 1994.

Robert Martini

On that date, all outstanding Class B or voting shares will automatically be converted to Class A stock by the provisions of an existing recapitalization plan, Bergen's John Fay told *Drug Store News*, explaining: "In February 1994 we become a so-called shareholder democracy."

Rite Aid program encourages moms to test for breast cancer

SHIREMANSTOWN, Pa.— Rite Aid has expanded its Mother's Day discount mammogram program to include the Washington, D.C. market.

The program, piloted in central Pennsylvania two years ago, is designed to encourage women over 35 to have a breast examination and it provides for reduced cost mammograms.

Mammograms can cost up to $250 at some facilities. With the card, women only pay a negotiated rate of $40 or $50 (depending on the market) at participating health facilities.

This year, Rite Aid's program is a joint effort with the American Cancer Society and its local affiliates. The corporation has also enlisted the help of local television stations in each market. The stations will run public service announcements and special programming alerting women to the dangers of delaying regular screenings and will also urge women to take advantage of the special offer.

Special Mother's Day cards providing information on screenings and outlining the discount are available at more than 550 Rite Aid pharmacies in the central Pennsylvania, Philadelphia and Washington, D.C. markets from April 20 to May 10.

A first-time mammogram provides a screening for breast cancer—one of the most common types of cancer in American women—and establishes a starting point for future comparisons. One in nine women are diagnosed with breast cancer over the course of their lives, according to the American Cancer Society. ACS estimates that 90 percent of these cases could be clinically cured if they had been detected in an early stage.

"All health professionals agree that early diagnosis and treatment is the most effective means of combating breast cancer," said Alex Grass, Rite Aid's chairman and ceo. "Our pharmacists will be emphasizing the importance of regular screenings to women and will also encourage men to carry the message to the women in their lives."

Eckerd, magazine join to sponsor national telethon on parenting skills

CLEARWATER, Fla. — Could you be a better parent?

Eckerd Drug Stores and *Parenting* magazine want to know. As part of the national Children's Miracle Network Telethon, the drug retailer and publishing concern have joined forces to query the American public on its parenting skills.

Opinions on issues such as spanking, breastfeeding, appropriate child behaviors and daycare will be revealed when the telethon airs on May 31. The results will be presented during a 10a.m.-to-noon segment of the telethon that will be hosted by singer Marie Osmond and football great Merlin Olson.

Eckerd is helping with the telethon and survey on several fronts. An estimated $350,000 will be donated through two different programs. The retailer donates 20 cents for every prescription filled for children through age three and 50 cents per customer on ancillary photography services such as enlargements.

"We got involved in the poll because Eckerd has been a sponsor of the telethon in years past but more or less on a regional level and we had always wanted to do more," said Eckerd advertising manager Patty Aldrich.

The chain began distributing surveys in its stores throughout the south and southeast on April 15. The surveys are located near store registers and also appear in *Parenting* magazine. Once survey results are tabulated they will be discussed by a panel of children's experts, including Eckerd pharmacist Jo Ann Nuccio. Issues that will be focused on include infant safety, nutrition and health, sex education, building self-esteem and drug abuse.

In addition to having a pharmacist on the panel of experts, the chain will also have some on-screen signage that will appear during the two-hour parenting poll special, according to Steve Williams, vp of communications with CMN.

"I know Eckerd is interested in reaching the

Continued on page 8

OPINION

Wal-Mart: in a category all its own

IN THE MARKET
BRUCE BUCKLEY

The focus in this issue is on the remarkable achievement of the chain drug industry during the past year—remarkable because it occurred in an economic climate that put consumers on edge and muffled sales in other retail segments.

Many of the chain drug retailers that combined to produce almost $50 billion in sales last year are profiled in these pages. But ironically one of the biggest players in the chain drug market isn't even listed on our top 50 chart.

I'm speaking, of course, of Wal-Mart.

Because of its success over a broad array of retail segments, Wal-Mart has been under intense scrutiny by all sorts of business analysts, and many different reasons have been offered for the company's steep climb from small regional operator to the pinnacle of retailing success.

A recent article in the *Harvard Business Review* suggests another way of looking at the reasons for Wal-Mart's achievements. The authors—George Stalk, Philip Evans and Lawrence E. Shulman—are vice presidents of the Boston Consulting Group. A couple of years ago they wrote an article in this influential business journal on how successful companies in the '80s used time—the speed of response to customer needs—as a potent strategic threshing machine to mow down rivals.

In the current issue they take a broader approach. Speed is just one part—though an extremely important one, they write—of a total commitment to "a new conception of corporate strategy that [the authors] call 'capabilities-based competition.' "

The concept of a strategy based on capabilities developed in this 8,000-word essay is complex. But essentially it means focusing broadly on *behavior*—"the organizational practices and business processes in which capabilities are rooted," and choosing and investing in those that offer the most significant competitive advantages.

In Wal-Mart's case the authors go into great detail about the company's distribution system, with particular emphasis on the rapid flow of goods and information through the network whose parts encompass vendors, distribution centers, trucking fleet and stores.

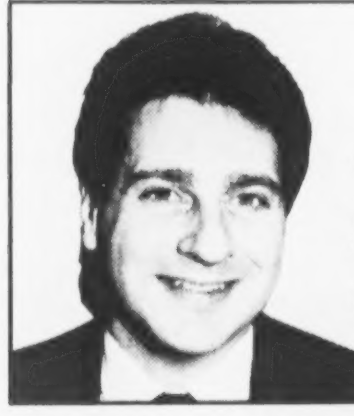
By cross-docking the cataract of products that flow from its 4,000 vendors to 19 warehouses and thence to stores, Wal-Mart is able to achieve a rapid response to the product movement information that is itself flowing like a cascade from stores to DCs. Upstream and downstream both unruly flows are tamed and put to use. Goods are purchased in truckloads based on the "pull" from stores. But they spend very little time taking up warehouse space. Typically the cycle time from warehouse to store is less than 48 hours; shelves in most stores are replenished two times a week.

The speed of the product flow, the palletized truckload purchases, the management of inventory through the entire system—all allow Wal-Mart to cut its cost of sales by 2 percent to 3 percent vs. industry average, according to the authors. That saving provides part of the muscle behind Wal-Mart's potent everyday low pricing strategy, which in turn is a big part of the reason for its monumental sales growth.

Wal-Mart's investment focus on enhancing its distribution logistics as part of its overall focus on competing on capabilities doesn't come cheap. But the payoff has been the creation of the most potent force in retailing.

Some of the companies profiled in this issue have done a remarkable strategic job in emphasizing their own logisitics capabilities, but none has done it better than the Bentonville giant.

Big spenders flock to low-priced formats



THE HUMAN SIDE
AL HELLER

Radical shifts in consumer shopping habits are grist for revolutionary approaches by retailers that will determine whether they thrive or survive—or worse—in the '90s.

"Almost 25 percent of the business is. . .in play in the market because people are breaking out of the single shopping trip," says Willard Bishop, president of Willard Bishop Consulting. He served as part of a research team brought together by the Food Marketing Institute to conduct a massive study of non-traditional retail formats.

The study's initial findings were presented at the FMI Midwinter Conference, with a final report due at its annual industry convention in Chicago this month.

A shift in consumer loyalty to wholesale clubs, discounters and deep discount drug stores can be attributed to their efforts to undercut on price, buy in bulk, hold down operating costs and—equally important—educate consumers to stock up on larger sizes and expect less service and selection than they get at traditional combos or supermarkets.

Conventional drug chains, of course, face even greater marketing challenges from alternative formats because their resources to combat the threat are more limited than large food chains and their pharmacy-HBA franchise is such an attractive target. Moreover, drug chains can't offer the same appeal of one-stop shopping as large supermarkets.

Bishop, citing results of interviews with more than 1,200 consumer households and focus groups in the survey, said: "One-stop shopping is still great for 80 percent of the people, but 20 percent do a significant amount of splitting of their grocery shopping across alternative formats."

What's more, "we see evidence that the alternative formats are skimming off the larger, bigger-spending households," added Jim Heisler, senior vp of Opinion Research Corp., another partner in this study.

Alternative format shoppers spend an average of $110 weekly in supermarkets compared with $79 for supermarket shoppers in general, he added.

"The average consumer today is willing to make trade-offs in the alternative formats. They value quality and price most," said Heisler. "Variety and convenience are valued next over service."

That finding leaves conventional store operators with plenty of ways to become preferred outlets. But the yellow flags are waving. Non-food categories—HBA, paper products, laundry supplies and pet needs—are "under attack," said Heisler.

"Club stores, discount department stores and deep discount drug stores are all growing rapidly. . .a significant portion of their growth is in our product lines," said Hugh Farrington, ceo of Hannaford Bros. and chairman of the FMI committee that oversaw the study.

There's a theoretical limit to the advances that can be made by these alternative formats. Whenever they add an item to their mix, they raise their costs and lower turns, and dull their ability to have razor-sharp prices.

Still, today's reality is loaded with pressure for conventional drug and food store operators to respond. These new formats aren't skimming. They're cutting into the core shopping base and luring some of the most productive, stock-up shoppers.

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